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Europe's Hottest Entrepreneur: Page 84
The Export Assistance Program Nobody Knows: Page 37
Capital: Getting Ready for Rising Interest Rates: Page 151

THE JOY

of

WORKING

HOW EMPLOYEE SATISFACTION GIVES SMALL COMPANIES THE COMPETITIVE EDGE

AN EXCLUSIVE SURVEY OF GROWTH-COMPANY EMPLOYEES

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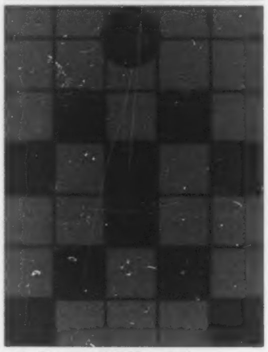
INC. COVER STORY



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COVER ILLUSTRATIONS
by
Nigel Holmes

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THE JOY *of* WORKING

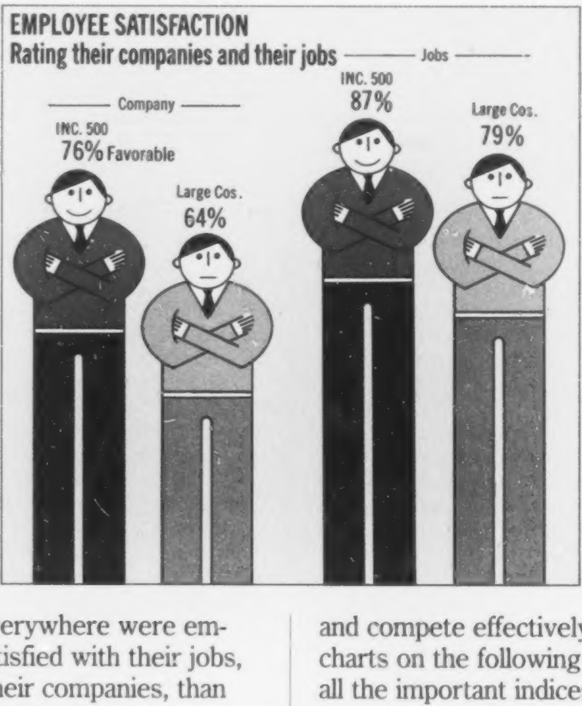
A new study of INC. 500 firms reveals the secret of their success: motivated and enthusiastic employees

THE INC. 500—THE FASTEST-GROWING small and midsize private companies in America. Almost every manager worth his salt dreams of starting one someday. And every venture capitalist dreams of backing one. But what is it really like to work for one? Remarkably satisfying, as it turns out.

That is the conclusion of a six-month study just completed by INC. in collaboration with the nationally known management consultants of the Hay Group. Twenty-eight hundred workers were surveyed from more than 100 INC. 500 companies around the country, and focus groups were held in Atlanta, Boston, Chicago, Philadelphia, and Los Angeles. What we found everywhere were employees who were more satisfied with their jobs, and had more respect for their companies, than the employees of Corporate America.

What you notice about these INC. 500 employees is not simply that they are more satisfied, but the ways in which they are more satisfied. In terms of pay and benefits, they lag well behind the employees of large publicly held corporations. But what they miss in hard currency is more than compensated for in the soft currencies of human-resource management. INC. 500 employees find themselves in jobs that offer challenges and a sense of accomplishment. They experience a company culture that values initiative and ideas. And they are confident that they work for companies that put out quality products, treat their employees with respect, and compete effectively in the marketplace (see charts on the following page). In terms of almost all the important indices of employee relations, these are companies with plenty of momentum.

EMPLOYEE SATISFACTION
Rating their companies and their jobs



TEXT BY CURTIS HARTMAN AND STEVEN PEARLSTEIN

CHARTS/LOGO: NIGEL HOLMES

"If I were a *Fortune* 500 CEO, I'd be worried," says Michael Cooper, president of the Hay Group's Research for Management. "The positive attitudes of their employees give small companies a great competitive advantage." Cooper has found that all employees bring enthusiasm to new jobs, no matter what size the company. "Smaller companies are able to sustain this enthusiasm by empowering workers and giving them a sense of common purpose. To get similar results, large companies have to pay cash—higher wages and benefits—and that makes their cost structures just that much less competitive."

COMPENSATION
Median pay by job class

	INC. 500	Large Cos.*
Managers	$32,000	$71,000
Professionals	24,000	40,000
Salespeople	26,500	42,000
Hourly workers	10,500	18,500

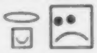
$$$$$$$$

*INC. estimate

Of course, not all small companies have workers as motivated and satisfied as those of the INC. 500. In fact, the circumstantial evidence is that employee motivation is a major force behind the extraordinary growth of these companies, rather than simply the result of it. "These companies are not successful simply because they have a good product or a brilliant founder," says Cooper. "They are also successful because they have managed their people in ways that keep their involvement and sense of partnership high."

FACTORS BEHIND SATISFACTION
Why small companies are better places to work

% Favorable	INC. 500	Large Cos.
Challenging, interesting work	59	49
Chance to have ideas adopted	52	35
Sense of accomplishment	59	47
Product quality	90	74
Competitiveness	86	72
Treat employees with respect	65	49



Lest you think the employees of the INC. 500 are a naïve or uncritical lot, consider how they view American business in general. They are not shy about pointing the finger at other companies for failing to reward employees, skimping on quality, ignoring customers, and thinking short term, but they find much less evidence of these shortcomings in their own companies. Only on the issue of managing growth do they find their own firms wanting—and with many of these businesses nearly doubling in size each year, who would be surprised.

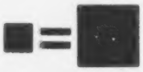
ATTITUDES TOWARD BUSINESS
INC. 500 employees compare their own companies with business at large

	My Co.	Most Cos.
Fails to reward good job performance	34	57
Is not concerned with quality	6	43
Is too interested in short-term profits	15	41
Doesn't listen to customers	6	30
Has grown too fast	30	26

Yet for all their positive feelings, these employees express only slightly more pride in, or loyalty to, their small and growing companies than do the employees of the giant corporations. Part of it is that they have not been locked in by generous salaries and pension benefits. Part of it is that these are people who seem more energized by the type of work they do than by the company they do it for. But there also run unmistakable undercurrents of dissatisfaction within these growing companies—concerns that favorites are being played, that company plans are too closely guarded, that employees' interests and suggestions are ignored. And although these are successful companies, they are not companies that have gone out of their way to share their success with their employees.

PRIDE AND LOYALTY
No significant difference between big companies and small

	INC. 500	Large Cos.
Employee pride	68	64
No plans to leave	54	54



"These are early warning signals that shouldn't just be dismissed as predictable grousing," says Harold Glass, who directs the Hay Group's strategic management practice. "They are extremely accurate predictors of future problems—not just in terms of employee relations, but in terms of product quality and operating costs, and company profits and growth."

GRIPES
Where INC. 500 employees give their companies the lowest ratings

	% Favorable
Deals fairly with everybody	45
Considers employee interests	43
Responds to employee complaints	44
Shares success with employees	44

THE HIERARCHY GAP

IN ANY EMPLOYEE SURVEY, ONE KEY FACTOR ALWAYS turns out to be job class—how high you are *on* the company is usually related to high you are *in* it. One way to gauge the extent of that phenomenon is to measure the difference in attitudes between senior managers at the top and hourly workers at the bottom—a difference the Hay Group refers to as the hierarchy gap. And in the INC. 500, this gap is enormous.

THE HIERARCHY GAP
Percentage gap in favorability rating between senior managers and hourly employees

	INC. 500	Large Cos.
Overall company rating	33	23
Pay	44	2
Challenging, interesting work	59	35
Sense of accomplishment	52	29

"A small company that doesn't become more egalitarian in its management practices will remain just that—a small company," warns Cooper. "We know from our other studies that companies with sharply hierarchical structures and beliefs do not enjoy long-term success."

From the data, it is clear that what distinguishes INC. 500 companies from the larger ones is not how satisfied are its managers but how unhappy are its hourly workers. Unlike the other employees of the INC. 500—the professionals, the salespeople, the middle managers—hourly workers just don't feel part of the team. Only a minority feel as if they share in the success (21%), or have a sense that their ideas count for much (34%), or believe that management even bothers to consider their interests (23%). Few find their jobs rewarding (26%), adequately paid (31%), or leading to advancement (19%).

Although there are any number of strategies that might be adopted to help close the hierarchy gap, it may be that resentment at the bottom is endemic to all small fast-growing companies. These are, by origin and necessity, product- and market-driven companies that have relied most heavily on professionals and their salespeople for their existence and growth. In such companies, hourly workers appear to be less important, even expendable—and they sense that from the size of their paychecks and from the way they are treated.

Still, the experts of the Hay Group expect that with continued growth, INC. 500 companies will begin to eat away at the hierarchy gap. At the bottom of the company, growth and success are likely to bring the higher wages and more generous benefits that hourly workers most want and need. And at the top, growth will eventually erode some of the satisfactions that smaller businesses more naturally can offer their managers and professionals. The satisfaction gap between top and bottom should gradually diminish.

Indeed, even within the confines of the INC. 500 there is ample evidence that employee attitudes change noticeably as companies move through various stages of growth. Our survey revealed that there are dips in satisfaction when a work force reaches 45 employees, then again at 100. Roughly speaking, these might be defined as the rites of passage in the maturation process of young companies.

"Without systematic attention to employee attitudes, these companies can very quickly begin to lose their advantage," warns the Hay Group's Cooper. "The trick is to find systems that will allow a company to replicate the commitment and excitement that was so important during the start-up phase—and thus allow the company to operate and grow without everything having to rely still on the founder or CEO."

SIZE AND SATISFACTION
Positive attitudes decline as companies grow

% Favorable No. of employees	0–29	30–69	70–99	100+
Overall company rating	88	83	77	65
Employee pride	78	74	69	59
Respect for employees	75	72	67	57

KEEPING SATISFACTION HIGH

HOW DOES A COMPANY KEEP ITS EMPLOYEES SATISFIED even as it grows? Our study suggests three approaches.

☐ **Share the future.** Despite their employees' positive attitudes, the companies of the INC. 500 experience high turnover—nearly half of the employees say they expect to leave their companies in the next few years. Employees feel stronger connections to their jobs, to their colleagues, even to the company's products than to the companies themselves.

One reason is that employees don't see as much chance for promotion and advancement as they have been led to expect. In response to a series of questions relating to job satisfaction, opportunity for advancement ranked dead last with every job class. And it is one of few areas in which the INC. 500 does not enjoy a significant advantage over large corporations. Among those expecting to leave the company, nearly half said they found opportunities for advancement were wanting.

ADVANCEMENT
How different job classes assess opportunity for promotion

% Favorable	INC. 500	Large Cos.
Managers	53	51
Professionals	39	25
Salespeople	49	41
Hourly workers	19	17

Although there is probably nothing more important that a company can do to enhance the possibility of advancement than to continue to grow, companies could make more systematic efforts to promote from within, especially for highly visible positions. Big companies do a better job than smaller ones in creating a culture that values loyalty and longevity of service. That has its problems, but it does help to account for a more manageable rate of employee turnover.

Good pension plans also help to lock in good employees. Right now, the employees of the INC. 500 find pensions woefully inadequate, from the senior managers right on down. Many small companies argue that they can't afford pension or other deferred-compensation programs. But a better question may be whether they can afford to do without them.

PENSIONS
How different job classes assess retirement benefits

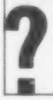
% Favorable	INC. 500	Large Cos.
Managers	29	49
Professionals	27	24
Salespeople	21	44
Hourly workers	14	31

"In approaching things such as pensions," advises Kenneth Shapiro, who directs Hay's benefits consultants, "it is important to think of them not strictly as costs, but as investments—investments that have measurable returns in lower employee turnover, increased loyalty—eventually—and productivity improvements." Shapiro says that, on average, pensions cost a large company 7% of payroll, but suggests that small companies should start at a more modest level and phase in programs over time.

☐ **Share information.** One area in which big companies outshine the INC. 500 is in internal communications. This is less so in the smallest companies where all employees can attend the same staff meeting and many CEOs manage by simply walking around. But as companies reach 40 and 50 employees, the somewhat informal lines of communication of the early days no longer are so effective. This puts particular strains on managers and supervisors, who are often left in the dark by owner-founders still in the habit of keeping everything to themselves.

INFORMATION
How well informed do managers feel about company plans and goals

% Favorable	INC. 500 with 45+ employees	Large Cos.
Senior managers	66	82
Middle managers	70	82
Supervisors	53	71

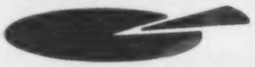


The solutions here are not very magical. CEOs have to do a better job of sitting down with managers and supervisors and letting them know how the company is doing and what plans are in the offing. The risk, of course, is that your managers won't be discreet with the information or pleased with the plans. The risk of not consulting them, however, is that the good ones won't stay.

☐ **Share success.** Part of the mythology of the fastest-growing small private companies is that everybody gets in on the action. But it turns out to be just that—a myth. Only 13% of the INC. 500 employees cite profit sharing and stock options as a reason for staying at their firms, putting it last on the list of company attractions. And when asked how they rated their companies in terms of sharing successes, these otherwise upbeat employees turned sour. Among those with negative views of their companies, moreover, lack of profit sharing is more of a bone of contention than either low pay or meager benefits.

SHARING SUCCESS
INC. 500 employees feel shortchanged

% Favorable	Manager	Prof.	Sales	Hourly
Bonuses, profit sharing, stock options	47	43	38	22
Company shares success	54	49	52	21



"There is a good deal of psychological importance to this idea of sharing and involvement," explains the Hay Group's Cooper. "The degree to which employees feel that the company's success is only the CEO's success is the degree to which the company will have difficulty sustaining growth."

Obviously, it is not as easy to offer stock to employees in small private companies as in giant public ones—nor is it necessarily recommended. Other types of profit-sharing plans are much less risky and less complicated. But what generally stands in their way is the feeling on the part of many CEOs that, when all is said and done, the company's successes are really their own successes, and the rewards belong to them. Egotism and entrepreneurship seem to go hand in hand.

"I'm alone at the top," explained a CEO at our Philadelphia focus group. "I take all the pressures. And I deserve the rewards." Added another, "If an employee is able to keep his job for a long time, he might not call that sharing the success. But I do." Both CEOs made it clear these were sentiments they would not want to share with their employees. Our survey, however, indicates that the employees have figured it out on their own. ☐

(additional survey results on page 66)

SATISFACTION & JOB CLASS

MANAGERS

Median salary: $32,000

■

Median age: 36

■

Attractions: challenge, colleagues

■

Disappointment: lack of advancement

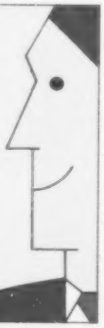
■

Advantage of small companies: havings ideas adopted

■

Gripes: uncontrolled growth, CEO's reluctance to share information

	% Favorable	
	INC. 500	Large Cos.
Company rating	83	83
Job satisfaction	94	89
Pay	62	64
Security	61	66
Have ideas adopted	65	49
Challenging, interesting work	71	62
Authority to make decisions	72	59
Opportunity for advancement	53	51
No plans to leave	64	74



IF THE BIG COMPANIES OUGHT TO HAVE ANY ADVANTAGE, it is here in the ranks of management. Big-company pay is better—as much as double. The benefits are substantial. And the perception at least is that the jobs are more secure. More important, big companies are places that pride themselves on management and management systems rather than the seat-of-the-pants approach so common in entrepreneurial operations.

And yet, for all that, the middle managers of the INC. 500 are still happier than their counterparts in the corporate world—happier about their jobs and their companies. Even with CEOs always looking over their shoulders, INC. 500 managers feel they have more opportunity to make decisions and have their ideas adopted, to experience challenge and feel a sense of accomplishment. You also have the sense that they feel better about themselves because of the way the company treats those below them in the hierarchy. As middle managers, they feel less middled.

More than any other employees, INC. 500 middle managers feel the stresses of growth—fully a third say their companies have grown too fast. That should be no surprise. When orders outpace the capacity to fill them, when new products are introduced or new companies acquired, it is left to the middle managers to work out the details and iron out the kinks—and to explain why the new business isn't quite as profitable as predicted.

More than any other employees, middle managers came to the INC. 500 looking for advancement, only to find no greater opportunity than at the large companies where most had worked before. It is a frustration that builds the longer they stay. "My area can grow," explained one manager in Atlanta. "But the only place I can go up to is ownership, and that's not going to happen."

A more serious complaint is that middle managers too often feel left out. Nearly half say the company does an inadequate job of sharing—*sharing information, sharing authority, and sharing* success. In ranking the CEO, they give high marks for working hard and knowing what's going on, but only average marks for approachability.

PROFESSIONALS

Median salary: $24,000

■

Median age: 29

■

Attractions: challenging work, chance to learn new skills

■

Disappointment: failure to learn new skills

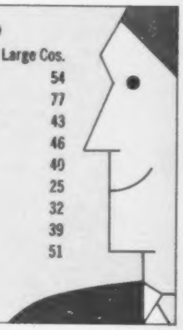
■

Advantages of small companies: good equipment, high standards, chance to have ideas adopted

■

Gripes: favoritism, inadequate training, lack of advancement

	% Favorable	
	INC. 500	Large Cos.
Company rating	79	54
Job satisfaction	88	77
Pay	51	43
Challenging, interesting work	67	46
Authority to make decisions	58	40
Opportunity for advancement	39	25
High performance standards	62	32
Equipment	75	39
No plans to leave	50	51



IF, AS PETER DRUCKER SAYS, THE CHALLENGE FOR business today is to learn how to manage heads instead of hands, then big business has a lot to learn from the INC. 500. For it is among the professionals that these small companies enjoy their greatest advantage.

"Large companies try to 'Taylorize' their professionals—they worry about their productivity and try to manage them as they would manage a welder or an assemblyman," explains the Hay Group's Michael Cooper. "In the INC. 500 companies, by contrast, professionals are clearly part of the fabric."

We are talking here of computer programmers and lawyers, but also first-year accountants and marketing specialists. At a focus group in Los Angeles, it was the little things—the beer blasts and tennis courts and company condo in Vail—that came most easily to mind to the largely under-30 group. The big items jump out from the survey data: the challenging work, the up-to-date equipment, the opportunity to see their ideas adopted. Of all the employee groups, only professionals take more pride in their companies than their big-company counterparts. These are employees who talk about the company in first-person plural, as in, "We can service our customers faster," or, "We may look like we're disorganized, but we're not." Said another: "The quality is personal—that product is us."

Yet for all the pride and close identification with product, these INC. 500 professionals are just as likely to move on in the next few years as would professionals anywhere. Their loyalty is to careers more than to companies, and if they fault the INC. 500 on anything, it is on its training and its opportunities for advancement.

THE INC. 500 AT A GLANCE

SALESPEOPLE

Median salary: $26,500

■

Median age: 30

■

Attractions: challenge, company reputation, pay

■

Disappointment: failure to learn new skills

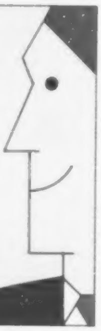
■

Advantages of small companies: authority to make decisions, quality products, a competitive company

■

Gripes: pay, benefits, inability to share fully in success

	% Favorable	
	INC. 500	Large Cos.
Company rating	86	83
Job satisfaction	91	91
Pay	60	70
Have ideas adopted	63	20
Challenging, interesting work	70	55
Authority to make decisions	67	40
Company competitiveness	93	72
Product quality	94	84
No plans to leave	64	77



THEY SAY YOU CAN'T CONVINCE CUSTOMERS OF THE value of your product and your company until you've first convinced yourself. And these folks are sold.

Aside from senior managers, the sales force is the most satisfied employee group within the INC. 500. They truly like their jobs, love their companies, and think even more highly of their products than the companies' top executives. If attitude translates into sales, these folks must be beating the pants and skirts off their competitors in Corporate America. Color them highly motivated.

Well, almost. It seems that money is a bit of a sticking point. More than for any other employees, it was the money that brought the salespeople to the INC. 500, and it is money that is more important to them in deciding to stay. But only 60% of the sales force finds the pay adequate, compared with favorability ratings on most nonmonetary issues in the 70s, 80s, even 90s.

And don't forget the fringe benefits. Salespeople apparently have never met a perk they didn't like—or think was undeserved. Here is the only group of employees who complain less about perks for top executives than even the top executives themselves!

You have to love those salespeople, though. At focus groups, you know them right away. While others will sit around waiting for the session to begin, the salespeople are the ones introducing themselves as soon as they enter the room, passing calling cards back and forth, beaming with bonhomie. No group complains less about overwork than the men and women of sales.

The small-company environment suits them—only one in five expresses a preference for the formalities of a big-company sales force. "It's more flexible, and we can turn things around fast," said one. "If you have to change a policy to make a customer happy, it's easier."

HOURLY WORKERS

Median wages: $10,500

■

Median age: 28

■

Attractions: convenience of hours and location

■

Disappointment: failure to learn new skills

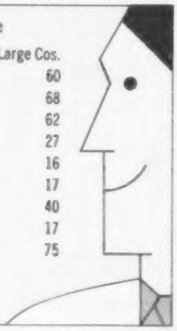
■

Advantages of small companies: good equipment and training

■

Gripes: unsatisfying work; pay and benefits; favoritism; the company's failure to reward good work

	% Favorable	
	INC. 500	Large Cos.
Company rating	56	60
Job satisfaction	75	68
Pay	31	62
Challenging, interesting work	26	27
Have ideas adopted	23	16
Opportunity for advancement	19	17
Company respect for employees	42	40
Company considers employees' interests	23	17
No plans to leave	45	75



HOURLY WORKERS ARE THE SKEPTICS OF THE ENTREpreneurial age. They experience all the disadvantages of small growing companies—less generous pay and benefits, a certain lack of planning. And yet they experience many fewer of the advantages: jobs that are challenging and satisfying, a company that considers their interests and treats them with respect. A union organizer could not ask for a more inviting group.

The hourly employees are also the realists of the group. Unlike other employees who came to the INC. 500 looking for challenge or advancement or a chance to exercise greater control over their work lives, the hourly workers signed on because the company's hours and location were convenient (62%) or because they thought they might improve their job skills (58%). Today, they find the jobs every bit as convenient, although nowhere near as enriching of their skills as they had hoped (39%).

In a focus group held in Chicago, we found that hourly workers could run hot or cold on their chief executives, but were more unanimous in their views on middle management:

"The boss is a good guy," said one, "and he's there all the time. But if you're not in top management, what he does doesn't matter. My beef is with the people who work under him. They don't know what we do to get the work done."

Added another: "If this were a real company, we'd have managers who knew how to get the work out smoothly. I see too many people getting away with things, coming in late, and goofing off. The managers have been there since day one—that's why they're managers, not because of what they know."

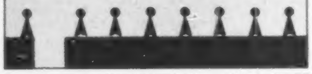
(additional survey results on page 70)

CEOs & EMPLOYEES:
HOW THEY VIEW ONE ANOTHER
The boss's big mistake is thinking that all his employees are just like him

WE ASKED THE CHIEF EXECUTIVE OFFICERS OF THE INC. 500 to fill out a questionnaire, too—not in a way that reflected their own feelings, but as they thought their average employee would. It turned out they were a bit optimistic.

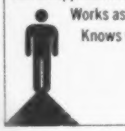
EXPECTATIONS VERSUS REALITY
Percentage gap between employee favorability and CEO predictions

Overall company rating	24
Ability of top management	19
Company efficiency	11
Employee pride	18
Respect for employees	23
Fairness	32



THE BOSS
Employees rate the INC. 500 CEOs

	% Favorable
Knows employees' names	75
Understands their jobs	61
Is seen weekly	53
Can be approached with a problem	49
Works as hard as anyone	67
Knows what's going on	68



If there is a pattern to the CEOs' misunderstandings about their employees, it is a very human one: too often, CEOs think employees are like themselves. Take the question of motivations. CEOs significantly overrated factors such as recognition of accomplishments and control over work as reasons why employees chose to work for the INC. 500—reasons often cited by entrepreneurs for starting their own businesses. And the CEOs consistently underestimated those factors that mean little to their own sense of satisfaction: things like learning new skills and convenience of hours and location.

In fact, what we found was that, although these are companies run by hard-charging, entrepreneurial risk takers, theirs is not a personality type that runs through their operations. According to an index devised by the Hay Group, INC. 500 employees at all levels are even more interested in security and less interested in risk taking than employees of large companies.

"Contrary to the popular myth, the typical INC. 500 company is certainly not populated with entrepreneurs," explains the Hay Group's George Gordon. "In smaller firms, the founder is still so involved in operational details that there may be less call for people to exercise initiative. Then too, it may be that entrepreneurs don't generally feel comfortable with other strong entrepreneurial types around them. As a result, it appears that the primary risk takers in these firms are the founders themselves."

This habit of projecting their own personalities onto employees also shows up when CEOs are asked to anticipate employees' complaints. Because they are themselves overworked and plagued by problems of company growth, CEOs expect employees to experience these problems much more than they actually do. And because CEOs are the type of people who find even modest procedures confining, they don't appreciate how much their employees really need and want them. Perhaps most important, CEOs underestimate the widespread nature of employee gripes that cluster in areas such as fairness, loyalty, and respect.

And yet there is one area in which CEOs are very careful not to think of their employees as they think of themselves, and that is in the area of money. It is a rare CEO who doesn't give credit for company successes to his key employees or talk about the work force in terms of teamwork and family. But mention pay or benefits or profit sharing and suddenly the world divides neatly into owners and hired help. It is not just that CEOs underestimate how much employees resent not sharing in the company's success, although they do. It's more that they don't see the connection between sharing and the company's continued success. At a CEO focus group in Philadelphia, they seemed to put it this way: "My employees can execute what I want done, but I'm the one with the ideas, and the success is mine."

SHARING SUCCESS
Percentage gap between employee favorability and CEO predictions

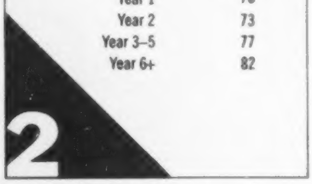
Pay	20
Bonuses, profit sharing, stock options	13
Medical benefits	26
Pensions	8
Company shares success	13

OTHER FINDINGS

The second-year itch. How employees view their companies changes over time. The first year elicits high levels of respect before a sense of disappointment hits in year two. By years three and four, those most dissatisfied have probably gone elsewhere, leaving behind a group of veterans who seem to get more satisfied with each passing year. The Hay Group has found a similar pattern in larger companies, though the period of dissatisfaction tends to last longer.

THE SECOND-YEAR ITCH
Most employees experience a letdown after the first year

	Co. rating % Favorable
Year 1	78
Year 2	73
Year 3–5	77
Year 6+	82

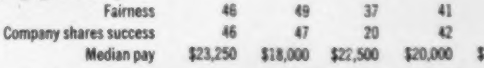


Satisfaction by sector. Actually, there were fewer differences in employee attitudes among the various sectors of the INC. 500 than we would have expected. Those who work in construction are uniformly the most critical of their companies even though they are the most satisfied with their own jobs.

In contrast, there are the retail employees, who are the lowest paid and the least satisfied with their jobs, yet express the highest admiration for their companies. Retail workers are also the least likely to quit anytime soon. More consistent in their views were service workers, who were the most positive in the survey, and manufacturing and distribution, who were the most doggedly negative.

SATISFACTION BY SECTOR
Service and retail workers are the most content

	% Favorable				
	Service	Retail	Constr.	Mfr.	Distr.
Overall company rating	77	79	61	71	76
Challenging, interesting work	60	57	55	56	58
Fairness	46	49	37	41	39
Company shares success	46	47	20	42	36
Median pay	$23,250	$18,000	$22,500	$20,000	$18,500



HOW THE INC./HAY SURVEY WAS CONDUCTED

To measure the attitudes of INC. 500 employees, INC. and the Hay Group of Philadelphia sought the cooperation of 125 companies that had been listed on the INC. 500 list of fastest-growing private companies from 1984 through 1986. The final group of participating companies reflected the geographic and sector distribution of the universe of INC. 500 companies. Companies with fewer than 10 employees or more than 500 workers were excluded.

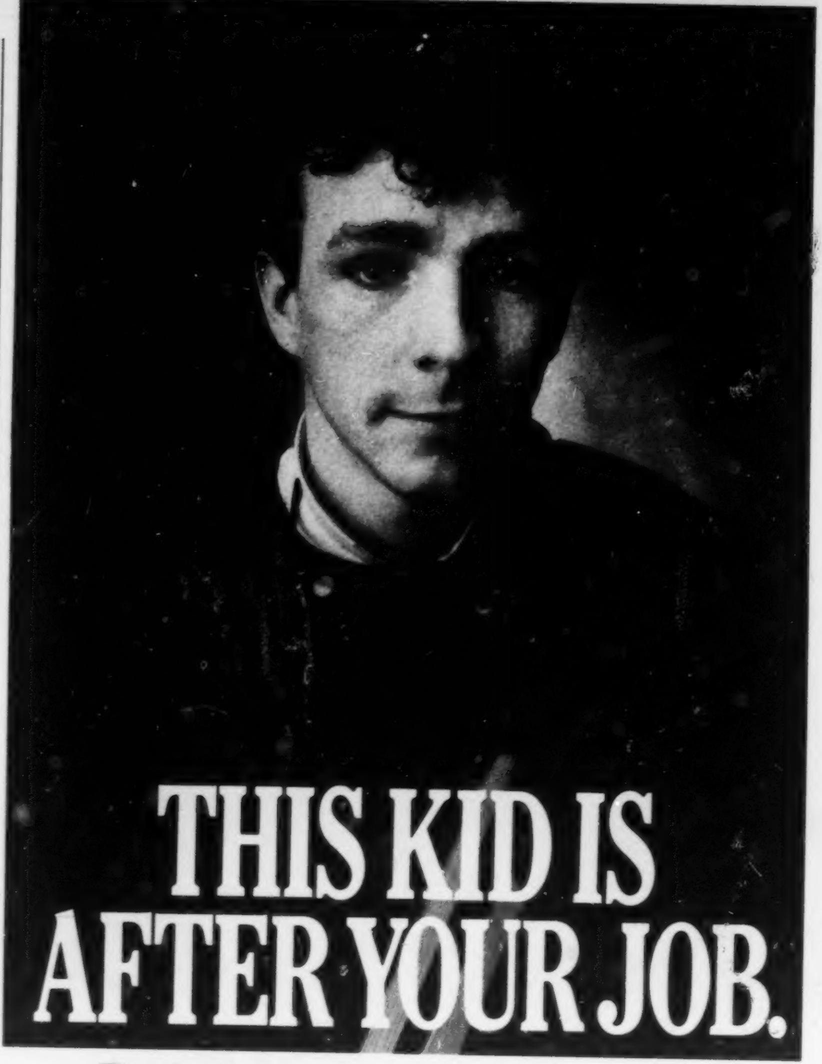
Each company was asked to distribute a 70-item questionnaire to all its employees. Participation was voluntary and anonymous, and the survey was self-administered. Nearly 3,000 surveys were returned directly to INC. by postpaid envelope, and tabulated by Data Tabulation Services Inc., in Stoneham, Mass. Responses from companies with participation rates of less than 30% were subsequently excluded from the survey.

Once the survey results had been compiled, Hay Group consultants conducted focus sessions for small groups of INC. 500 chief executive officers, managers, professionals, salespeople, and hourly workers. The sessions were held in Philadelphia, Atlanta, Los Angeles, Boston, and Chicago, respectively.

Figures for employee attitudes at large companies were taken from the 1987 Hay Employee Attitude database compiled from proprietary surveys of employees in 1,900 U.S. corporations, ranging in size from 500 to 50,000 employees. For purposes of this article, only those large companies showing five-year sales growth were used.

The INC./Hay Employee Survey was prepared under the direction of INC. special projects editor Sara Baer-Sinnott and Fowler Shaw, management information director at the Hay Group. Analysis and technical assistance were provided by Lance Berger, Mary Searles, Bonnie Goldberg, Jim Gouthro, George Gordon, and Doran Twer at the Hay Group and Jodie Slothower and Deborah L. Weeks at INC.

Results of the INC./Hay Group Employee Survey may be not reprinted or broadcast except by permission. Copyright 1987 INC. Publishing Co. and the Hay Group. A complete report of the survey results, along with a more detailed analysis and comparison to large-company employees, will be published early next year. Copies may be reserved by writing the Center for Management Research, 55 William St., Wellesley, MA 02181.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THE CLASS OF '82

The years 1982–1987 were kind indeed to today's INC. 500. But how did they treat the INC. 500 of 1982?

BY DAVID L. BIRCH

The excitement surrounding the 500 rapidly growing private companies described in this issue raises fascinating questions. What happens to them next? Do they keep growing (*can* they, at such speed), or have they peaked too fast, soon to become just so many flashes in the pan? Or to ask in an engagingly hypothetical way: if you have the chance to invest in the INC. 500, to put up a private stake, should you?

To find out, we went back five years into our Cognetics database and followed each member of the 1982 INC. 500 through June 1987. Then we tested those companies against what we've learned about the performance of the economy as a whole.

We know already that the INC. 500 are part of a larger group of small, growing companies that collectively account for most of the employment growth in what we've come to call the New Economy. We know that they are relatively few in number. Our data suggest that about 500,000 companies (or 7% of the total of about 7 million) grow more than 20% per year, and about 80,000 businesses (or 1% of all companies) grow at a rate of more than 50% per year. By comparison, the average 1987 INC. 500 company has grown about 90% a year since 1982.

We also know that these fast-growing companies are volatile. Growth looks much more like a roller coaster than a ramp. In our broader database, we find that the single best predictor of a company's growth up to a two- or three-year horizon is previous decline. The best predictor of decline is recent rapid growth. And the best predictor of death is stability. Economywide statistics show that businesses that stop innovating and taking risks are almost twice as likely to fail as their more adventuresome counterparts.

Against this background, we measured the 380 companies of the 1982 INC. 500 for which we could obtain complete data. Could those companies sustain their qualifying performance for another five years? Are they less likely to go under? Did they do better than the overall universe of companies?

Our first discovery wasn't surprising. Of those we could study in depth, very few companies from the '82 list sustained their INC. 500 qualifying pace—an average annual growth rate of approximately 60% (see figure 1). In general, the faster they grew to get on the 1982 list, the more likely they were to slow down. The converse is also true: slower-growing qualifiers were much more likely to keep up their pace, and were less likely to decline in the future. (Keep in mind that all these businesses were growing explosively. "Slower growing" does not mean "slow growing.")

FIGURE 1: THE CLASS OF '82 TODAY

INC. 500 rank in 1982	% that maintained growth	% that grew but more slowly	% that declined	% that failed
1–100	2.5%	72.2%	21.5%	3.8%
101–200	5.1	61.6	29.5	3.8
201–300	5.0	63.8	23.7	7.5
301–400	7.9	74.6	12.7	4.8
401–500	19.1	61.8	17.6	1.5

Though few 1982 INC. 500 companies maintained the pace that earned their listing, a huge majority did keep growing.

Some members of the class of '82 were not around for their fifth reunion. Our database reported 16 closures, and there were another 61 businesses we could find no trace of, even searching by phone—taken together, a 15% disappearance rate. This may seem high for a group of companies that was so successful as recently as five years ago, but it still compares very favorably with a national rate during the same period of 24%.

The members of the class of '82 were far more volatile than the corporate population at large. At Cognetics, we have created a volatility index that measures a company's degree of instability by assessing its employment gains and losses over time. On this scale, the 1982 INC. 500 honorees have been five times less likely to be stable than the average U.S. company in the years since making the list. Only 12% of the INC. 500, compared with 62% of all U.S. companies, fell into the volatility index's "stable" range. What's more, almost half (42%) of the '82 INC. 500 were extremely unstable compared with only 15% of the overall corporate universe. It would appear that the INC. 500 superstars are not exempt from the rule that growth and volatility are inextricably bound.

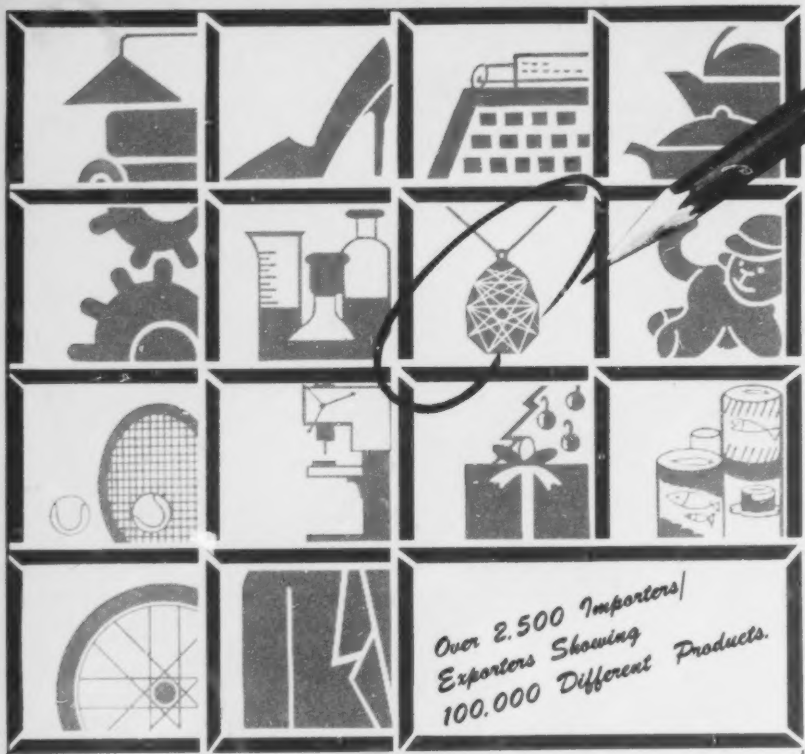
So would these companies be worth the risk, on average, if you were offered the chance to invest in them? Here we must hypothesize a bit. Unfortunately, we have no data on profitability, clouding any assessment of INC. 500 company value either in 1982 or 1987, and making it tough to compare performance over that period with that of publicly held companies. We can, however, compare how well the sales of the 500 grew in relation to the sales of all companies. The growth performance of the class of '82, it turns out, was nothing short of extraordinary (see figure 2). A staggering 43% were still growing rapidly from 1982 through 1987, in contrast to only 4% for all corporations over the same period—INC. 500 companies were *10 times* more likely to be rapid growers.

They may have slowed down, and they may be volatile, but the 1982 INC. 500 are still outperforming most companies by a large margin. If you could have invested in

FIGURE 2: THE CLASS OF '82 TODAY

Growth index	1982 INC. 500	All U.S. companies
Negative	23.4%	14.8%
0–4	22.0	76.2
5–19	12.0	4.6
20+	42.6	4.4

The growth performance of the class of '82 has been nothing short of extraordinary. (A growth index higher than 20 indicates extremely rapid growth, on a combined percentage and absolute basis.)



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each, your investment would surely have outperformed any stock or bond average computed today.

In short, and as a close look at INC. 500 companies suggests, investing in the growth of the New Economy is a wild and crazy game. Virtually all the growth now comes from companies generically like the INC. 500, which means they are relatively few in number, are spread across all industries and places, and are privately held and hard to find. They begin their rapid growth almost from birth: 62% of the 1982 INC. 500 were just three years old or younger when their qualifying track record began. If you had waited until they had qualified to invest, you would have done very well—but not nearly so well as if you'd become involved with them at their earliest stages.

When and if you can find a company like these and invest in it, its fortunes are very likely to bounce all over. It would seem wiser to invest in a large portfolio of 500 companies—a strategy, however, that would only multiply the difficulty of finding just one such company in the first place. It is no wonder that few pension funds hold positions in INC. 500 companies. Said another way: it is a great tribute to the diversity and inventiveness of our financing system that the INC. 500 get financed at all.

From 1982 through 1987, '82 INC. 500 companies were 10 times more likely to be rapid growers than others in the overall corporate universe.

What large-scale institutional investors are missing is the guts of the New Economy today. However 1982's INC. 500 companies may have vacillated over the past five years, their performance relative to the rest of the economy has been superb. In more general terms, more than 500,000 U.S. businesses are averaging better than 20% growth per year, and in 1986 the major investment-banking firms brought only 199 of them public.

So, our hats are off to the class of '82, for its resourcefulness in finding money as well as for the good use to which the money was put. To the formal investment community, a caution: you're missing most of the boat. And to the class of '87, our best wishes. May you thrive as well as did the generation before you. ☐

David L. Birch is president of Cognetics Inc. and director of MIT's Program on Neighborhood and Regional Change.

THE 1987 INC. 500

AMERICA'S FASTEST-GROWING PRIVATE COMPANIES

THEY ARE, IN MANY WAYS, A MICROCOSM OF THE American economy—a reflection of its variety, testimony to its volatility, the symbol of its vibrancy and strength. Few are well known, but nearly all have interesting, even dramatic stories to tell about where they've been and where they are headed. If you could somehow gather them under a single tent, it would be one hell of a party.

Meet the 1987 INC. 500. Although we can calculate all sorts of averages about this group of 500 businesses, it is probably more truthful to admit that none is typical. In size they range widely, from 3 employees to 1,660. In annual sales they run the gamut from $734,000 to $300 million. In age, they encompass everything from entrepreneurial bloom (5) to comfortable middle age (44). Many of these companies have made their owners wealthy, but more than a few remain doggedly unprofitable. The details about all 500 companies begin on page 75.

What the members of the INC. 500 have in common is that they are growing, and growing fast. Here is an elite business club whose members must have seen sales climb at least 526% over the last half-decade. At the top of the list, the pace of growth proceeds at such a fevered pitch—52,000% in the case of #1 American Photo Group—that to calculate percentages is virtually meaningless. Curtis Hartman takes the measure of American Photo Group in other ways, beginning on page 68.

Over the past months we've spoken to the chief executive officers of just about all the INC. 500, and we can report that there is no magic formula for business growth—if there were, we'd have long since patented and bottled it. What there is, however, is a common experience. Running any business is a challenge, but running businesses that, on average, are growing at the rate of 90% each year, year after year, is something else again. It is the special difficulties of managing such rapid growth that ties together the individual histories of these 500 companies, and that is the subject of our INC. 500 coverage this year.

In the pages that follow, we explore four common challenges that INC. 500 firms have faced and overcome.

- **Building a management team.** Bringing new managers on board is hard enough. Figuring out what to do with the old ones can be the hardest thing a CEO ever has to do. Often it is a trusted colleague who becomes the problem, or a friend who helped start the business a few years ago. Now, the business has taken off, and some members of the original team have reached their level of incompetence. What is the right thing to do as a manager? As a human being? Tom Richman talked with two CEOs who confronted this dilemma. Their stories begin on page 53.
- **Building a dependable work force.** Teleconnect Co. (#84) grew from 75 employees in 1982 to 1,174 last year—adding, in other words, an average of 5 employees every week, week in and week out, for four straight years. An extreme case? Yes. But even the average INC. 500 company increased its work force more than fivefold in the same period. When your business's future depends on so many green recruits, you have to find ways of training them—fast, and in ways that reflect your company's particular goals and values. Joshua Hyatt profiles a few companies that have learned to do it right, beginning on page 54.
- **Finding working capital.** A fast-growing company needs cash the way a teenager needs food: right now, please, and plenty of it. You'd think the banks would jump at the chance to provide such capital—if sales are growing, these companies must be doing something right. But bankers don't always see it that way, and Bruce G. Posner spoke with several companies that learned to work around them—or without them. His report begins on page 56.
- **Coming up with a second act.** Markets have a disconcerting way of maturing: some get saturated, others attract competition. Either way, a growing company can't rely forever on one product or one narrow set of customers. The problem is that success in round one by no means ensures success in round two. Paul B. Brown describes the fine art of learning from failure, beginning on page 60.

By focusing on these issues, we don't mean to imply that growing a company is simply an endless succession of headaches. It is the rare INC. 500 CEO who doesn't revel in the emotional high of managing a company on the move. Rarer still are the managers who can sustain that high over long periods of time. This year we salute six new companies that have made the INC. 500 for five years running. The 1987 entries to our Honor Roll begin on page 136.

THE INC. 500

Abacus II Computers (245)
ABC Supply (31)
ABS (106)
Academic Guidance Services (113)
Accr-A-Data (292)
Accutest Laboratories (304)
AC3 (432)
Action Systems (29)
Admax (473)
Advanced Energy Industries (179)
Advanced Medical Systems (210)
Advanced Systems Development (45)
Advertising Consultants (182)
After the Stork (119)
Aim Executive (160)
Alexia Natural Fashions (132)
Alliance Research (217)
Altex Electronics (479)
American Business Computer (221)
American Cimflex (5)
American Communications Group (53)
American Computer Professionals (277)
American Delivery Service (226)
American Farm Products (100)
American Leisure Industries (126)
American Nursing Resources (118)
American Photo Group (1)
American Systems Engineering (480)
A-M Homes (69)
Analytical Technologies (435)
Applied Energy Services (70)
Applied Systems (13)
Aquatran (58)
Aquidneck Management Associates (95)
Arkay Video Productions (90)
Associated Temporary Staffing (390)
Astrop Advisory (174)
ATK/Bay Area (236)
Atrium Medical (386)
Bacova Guild (374)
Barry, Bette & LedDuke (493)
Barry Companies (357)
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Bassman Vending (475)
Bax Engineering (375)
BCP Technical Services (71)
Beauty Store & More (328)
Bennett Funding Group (205)
Berger (211)
Bertucci's (265)
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Bluebird Systems (11)
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Brett Aqualine (9)
Broadway & Seymour (262)
BTG (150)
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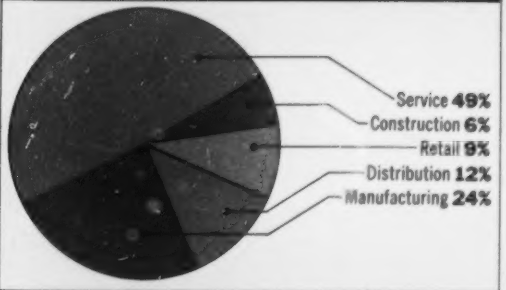
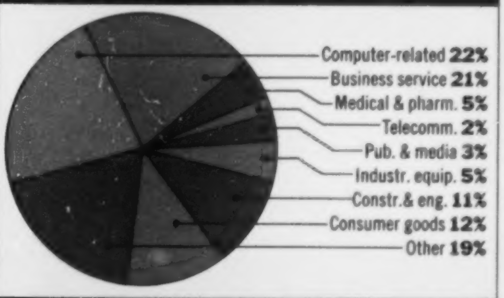
Delmarva Systems (309)
Dencom Systems (484)
Dental Center Service (161)
Dental Dynamics (477)
Depot Distributors of New England (487)
DeWolfe New England (271)
D.F.M. Enterprises (124)
Diagnostic Testing (339)
Digital Analysis (419)
Din & Pangrazio (451)
Discover the World Marketing (143)
Distinctive Business Products (42)
Distribution Plus (54)
Documentation Development (241)
Drug Emporium (185)
Dupey Management (412)
Dynacom Telecommunications (162)
Dytronix (127)
Early Cloud (28)
East Coast Computer Systems (68)
Eastern Marine Construction (138)
E C (67)
800-Software (167)
Eison Goot Group (165)
El Camino Resources (380)
Electrical South (429)
Ellis-Walker Builders (75)
Embree Interior Resources (137)
Emmis Broadcasting (38)
Energy Support Services (392)
Environ (325)
EPE (378)
Erin Benefit Group (409)
ERM Group (426)
Evcor Systems (246)
Execu-Flow Systems (331)
Expoconsul International (131)
Express Courier Systems (340)
Fantastic Sam's International (458)
FCG Enterprises (391)
Field & Associates (354)
Financial Proformas (189)
Financial Supermarkets (146)
First Capitol Computer (207)
Five Technologies (305)
Flam & Russell (194)
Flextronics (280)
FLS Services (195)
Fluorescent Maintenance Service (465)
Ford's Chemical & Service (499)
Foreign Candy (294)
Forest Home Systems (428)
Forte Industrial Equipment Syst. (415)
Fox-Huber (497)
Future Shape International (65)
Garey Construction (393)
Gary A. Taylor Construction (120)
Gates Distributing (7)
Gearcon General Contractors (123)
General Computer (372)
Ghafari Associates (34)
Gibson Group (175)
Glen Ivy Financial Group (410)
Glendale Envelope (306)
Glenn, Nyhan & Assoc. (107)
G.O.D. (16)
Golden Ribbon (367)
Golden West Temporary Services (115)
Good News Travels (385)
Goodtime Appliance & TV Rental (421)
Gorin's Homemade Ice Cream (434)
GPA Technical Consultants (322)
Graphics Leasing (359)
Greater Alarm Company (230)
Greater California Dental Plan (121)
GRiD Systems (32)
Group Benefit Services (22)
Guardian Products (364)
Hard Engineering (302)
Hartley Courseware (450)
HealthStream (244)
Health Tec (88)
Heritage Capital (436)
Heurikon (498)
Historical Developers of PA (56)
Holton Erectors (91)
Homeowners Marketing Services (12)
Honolulu Premium Products (289)
Human Resources (249)
Hutronix (76)
I. B. Diffusion (192)
Impact Systems (114)
IMRS (172)
Incepts (437)
Infinite Creations (373)
Infinity Communications (117)
Information Systems & Network (196)
Information Technology Services (77)
Innovative Computer Mgmt. Systs. (209)
Insurance Consulting Associates (225)
Integral Systems (320)
Integrated Systems Analysts (44)
Interactive Business Systems (43)
Intergroup of Arizona (57)
Interior Services (486)
Interior Surface (476)
International Micro Systems (55)
Island Water Sports (72)
JAC Creative Foods (62)
Jacore Systems (79)
JL Associates (352)
John Paul Mitchell Systems (141)
John Yantis (485)
Jones & Neuse (169)
Just Bikinis (438)
Karmak Software & Computer Svcs. (163)
Key Nursing (376)
King's Roofing (370)
K.L.C. (469)
KOH Systems (109)
KTI Holdings (112)
Kyle, Gordon & Associates (223)
Laboratory MicroSystems (491)
Labrec Financial Group (80)
Landair Transport (136)
Landex (216)
Landscapes Unlimited (441)
Laser Fare Ltd. (201)
Leisure World Health Club (299)
Life Design Systems (472)
Lifetree Software (83)
Lion Chemicals (256)
Lion Coffee (229)
Little (147)
Local Data (471)
Logicraft (261)
Logistical Transportation (253)
Logistix (59)
Lombardo Agency (488)
Lunar Radiation (14)
MAC Construction & Excavating (258)
Magnetic Data (48)
Manask & Carl (21)
Manta-Ray (377)
Marketvision Research (224)
Markit Productions (454)
Matarazzo Associates (319)
Maui & Sons (18)
Maxima (418)
McCaren Designs (406)
McClanahan (183)
Measurement Sciences (4)
Mellow Mail (384)
Merry Maids (490)
Metro Information Services (355)
Michigan Group (275)
Micro Center (351)
Micro Manufacturing Systems (206)
MicroSolutions (39)
Micro Systems (321)
MidAmerica Design Service (466)
Mid-Atlantic Medical Services (148)
Mid-South Communications (353)
Minors Lawn Care (446)
M.I.T. Recruiting Systems Agency (400)
MMS International (468)
Mobile Offices of Maryland (284)
Modular Mining Systems (180)
Molly Maid (298)
Mona, Meyer & McGrath (470)
Morgan & Myers (345)
Morris & Raper Realtors (20)
Mountain Computer (135)
MSI International (405)
M. W. Halpern (342)
Nanco Environmental Services (492)
Napit Contracting (82)
National Decision Systems (234)
National Health Care Affiliates (329)
National Systems & Research (300)
Neoterik Health Technologies (268)
Network Data Systems (308)
Network Rental (263)
Newbury Comics (313)
New Morn (218)
Nor-Cote Chemical (398)
North American Roofing (178)
Northeast Quality Products (369)
Novatron (388)
Ocean Specialty Mfg. (401)
O/E Automation (94)
Oldenburg Group (110)
Omega (433)
Omniform (430)
OMNI Resources (193)
Oneida Asbestos Removal (278)
Operation Bass (133)
Optim Electronics (362)
Original Copy Centers (199)
ORTTECH (116)
Outdoor Research (270)
PacSoft (204)
Palmer (99)
ParaData Computer Networks (235)
Pathology Associates (140)
PC Connection (2)
Penn Lyon Homes (17)
Performance Coatings (129)
Perry Morris (452)
Personal Computer Centre (149)
Personal Performance Consultants (403)
Peter Chud (439)
P. F. O'Connor (368)
Phoenix Microsystems (424)
PhoneAmerica (500)
Physicians Weight Loss Centers (184)
Pioneer/Eclipse (431)
Pizza People (456)
Placers (482)
Plow & Hearth (202)
Polycom Huntsman (291)
Porta Printer Systems (142)
Preferred Properties (422)
Presentables-Cinzia (288)
Pride Cleaners (494)
Prima Die Casting (381)
Professional Business Schools (416)
Professional Carpet Systems (248)
Professional Instrument Courses (237)
Profile (356)
Profile Records (63)
Promega (231)
Properties of America (423)
ProSync (336)
PSI (85)
Publications & Communications (455)
Puller Mortgage Associates (264)
QLM Associates (276)
Quadrant (344)
Quad-S Consultants (213)
Quality Quartz Products (191)
Quality "S" Manufacturing (36)
Quality Systems (335)
Quality Temp (460)
Queue (154)
RAM Graphics (427)
R & H Construction (495)
Read (98)
Relational Technology (64)
Renex (361)
Resource Information Mgmt. Systs. (159)
Respironics (457)
Richard Young Office Products (41)
Ridge Electric (190)
RJO Enterprises (24)
R. M. Wieland (366)
Robbins Communications (297)
Robec (151)
Roberts Welding Contractors (173)
Roddy Temporary Services (227)
Rod Thomas Enterprises (411)
Royal Waterbeds (346)
RPM Pizza (287)
Saftronics (445)
Sage Federal Systems (496)
San Diego Design (483)
Santa Cruz Operation (228)
Schlott (266)
Schmidt-Cannon (96)
Scosche Industries (269)
Seatec (463)
Second City Systems (170)
Select Temporary Services (303)
Seltmann, Cobb & Bryant (255)
Serrot (338)
Setton's International Foods (462)
Shawmut Design & Construction (158)
Shredex (97)
Silver Lining Seafoods (152)
Singer Consultants (92)
SKC Electric (103)
Skoda, Minotti, Reeves (474)
Skyline Displays (293)
Slotline Golf (254)
Smart (443)
Soil Shield International (363)
Source of Future Technology (323)
Southeast Holding (60)
Southern Office Furniture Distrs. (402)
Special Care (30)
Specialty Cabinets & Fixtures (333)
SRS Network (238)
Stamper Industries (51)
Starmark (311)
Star Nail Products (440)
Staubach Company (420)
STB Systems (25)
Steven J. Levine & Assoc. (181)
Stewart Supply (307)
Strategic Data Systems (27)
Strategic Management Group (188)
Strategic Radio Research (176)
Stu. Co. & Subsidiaries (394)
Suburban Landscape (447)
Sunbelt Transformer (489)
Sundance Spas (257)
Sun Financial (19)
Sunquest Information Systs. (301)
Super 8 Motels (73)
Superior Seeds (166)
Swintec (233)
SYME (389)
Systech (23)
Systel Business Equipment (260)
Systems Research & Applications (387)
Sytek (186)
TCH Industries (285)
Techmatics (155)
Technical Resources (464)
Technical Support Services (341)
Techstaff (279)
Teleco (408)
Teleconnect (84)
TeleTime Productions (348)
Teltrend (93)
Temp Force (461)
Temporary Solutions (417)
Temps (122)
Thomas Design & Engineering Service (87)
Tidewater Consultants (343)
T/Maker (316)
Todays Temporary (74)
Tom Garter Spas (413)
Total-Dent (203)
Townsend Agency (382)
Townside TV & Appliance (379)
TRC Temporary Services (267)
TRICOM (448)
Trinity Computing Systems (40)
United Agencies (197)
United Phone Book Advertisers (6)
Urban Designs (312)
USRobotics (145)
U.S. Agri Development (130)
U-Save Auto Rental of America (81)
Van Horn Designs (164)
Vocational Training Center (350)
VSP Personnel Services (324)
Walker Richer & Quinn (232)
Walsh Equipment (187)
Waste Energy Technology (52)
Westlake Graphics (327)
Wexco International (157)
White Pine (139)
William Raveis (330)
Windline Seaway (365)
Windmill Woodworking (242)
Wisconsin General Cartage & Warehouse (407)
Woodworker's Supply (286)
Word & Data Processing Products (251)
WordPerfect (26)
Worldmark (101)
W. T. Quinn (128)
Xscribe (414)
Zachary Jackson Copy Service (310)
Zack's Famous Frozen Yogurt (274)
Zero Defects (349)
Zymark (15)

AT A GLANCE

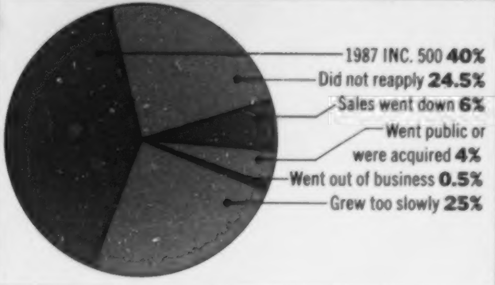
INC. 500 BY SECTOR



INC. 500 BY INDUSTRY

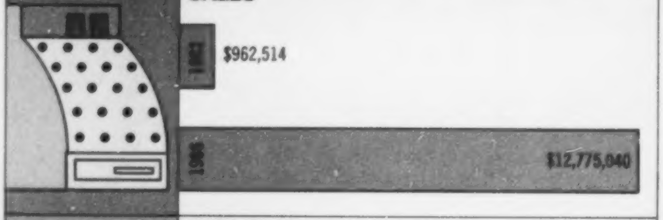


WHAT HAPPENED TO THE CLASS OF '86?

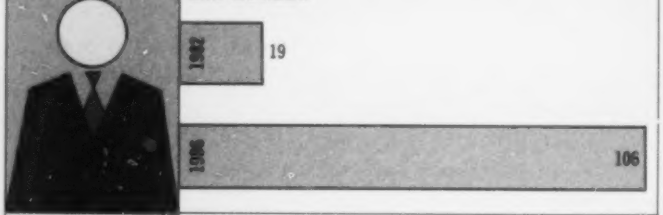


HISTORY OF GROWTH: THE AVERAGE INC. 500 COMPANY

SALES

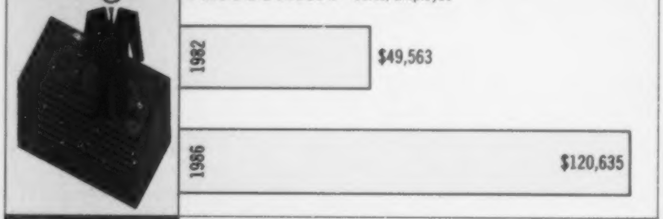


EMPLOYEES



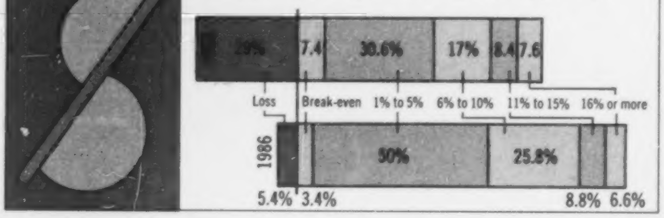
PRODUCTIVITY

Sales/Employee

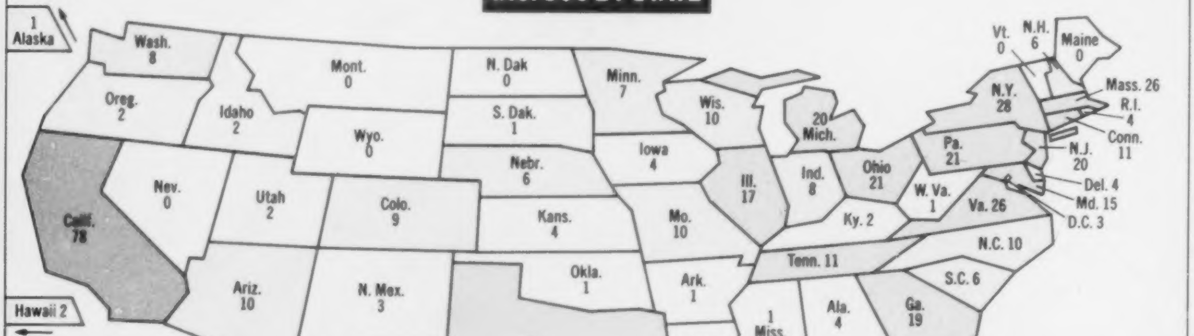


PROFITABILITY

(Aftertax income as a percentage of sales)



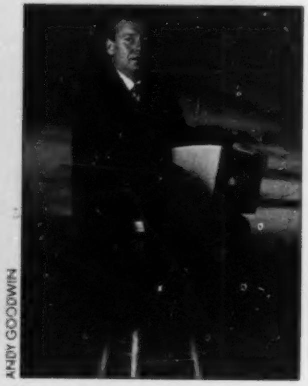
INC. 500 BY STATE


1 Alaska
Wash. 8
Oreg. 2
Calif. 78
Hawaii 2
Idaho 2
Nev. 0
Mont. 0
Wyo. 0
Utah 2
Ariz. 10
Colo. 9
N. Mex. 3
N. Dak 0
S. Dak. 1
Nebr. 6
Kans. 4
Okla. 1
Tex. 27
Minn. 7
Iowa 4
Mo. 10
Ark. 1
La. 4
Wis. 10
Ill. 17
20 Mich.
Ind. 8
Ohio 21
Ky. 2
Tenn. 11
1 Miss.
Ala. 4
Ga. 19
Fla. 24
S.C. 6
N.C. 10
Va. 26
W. Va. 1
Pa. 21
N.Y. 28
Vt. 0
N.H. 6
Maine 0
Mass. 26
R.I. 4
Conn. 11
N.J. 20
Del. 4
Md. 15
D.C. 3
More than 50
11-50
6-10
1-5
0

NIGEL HOLMES

THE 500

#13
APPLIED SYSTEMS INC. UNIVERSITY PARK, ILL.


ANDY GOODWIN

Robert Eustace

You saw it in the stock market. You've seen it in the merger-and-acquisition activity. Now you can see it in the INC. 500: software is hot. On this year's list there are more than 40 companies that design, manufacture, or distribute software, closing in on hardware as the driving force in the technology sector. Most experts see this as the start of a long-term trend, as the hardware becomes more and more like a commodity business and the software—everything from applications programs to artificial intelligence—becomes the high-stakes arena.

Near the top of this year's list is Robert Eustace's Applied Systems, which is typical of the successful software firms in its focus on a narrow market niche: applications software for insurance agents.

Company [illegible]	1982–86 Percent [illegible]	'86 sales [illegible]	'82 sales [illegible]	Profit range [illegible]		No. of employees [illegible]		Date [illegible]
1. American Photo Group Atlanta, GA Photo-finishing production & marketing	52,244%	$77,992	$149	D	D	1,212	3	1979
2. PC Connection Marlow, NH Retails mail-order peripherals & software	25,644	59,984	233	D	D	141	3	1982
3. Compuadd Austin, TX Retails microcomputers & peripherals	15,127	44,158	290	D	D	96	4	1982
4. Measurement Sciences Farmingdale, NY Distr. computer software & equipment	12,385	32,960	264	D	F	123	2	1980
5. American Cimflex Pittsburgh, PA Mfrs. computer-integrated systs.	12,178	26,397	215	F	F	300	12	1979
6. United Phone Book Advertisers (49) Lincoln, NE Publishes telephone directories	10,928	15,770	143	C	E	204	17	1981
7. Gates Distributing Richmond, CA Distr. microcomputer hardware & software	10,721	26,836	248	D	D	40	7	1981
8. Customer Development Peoria, IL Customer database mgmt.	10,664	17,868	160	D	B	191	32	1982
9. Brett Aqualine Huntington Beach, CA Mfrs. health-spa equipment	9,160	9,445	102	D	F	50	5	1982
10. CareerTrack Boulder, CO Professional development training	9,082	25,526	278	D	F	134	5	1982
11. Bluebird Systems Carlsbad, CA Publishes & distr. software	7,933	11,648	145	D	F	110	30	1982
12. Homeowners Marketing Services Hollywood, FL Provides real-estate marketing & support svcs.	7,640	16,331	211	C	F	50	10	1980
13. Applied Systems University Park, IL Develops & mfrs. microcomputer software	7,627	10,431	135	D	F	120	7	1980
14. Lunar Radiation Madison, WI Mfrs. bone densitometry equipment	7,522	14,634	192	B	F	100	15	1980
15. Zymark (11) Hopkinton, MA Develops & sells lab automation equipment	7,490	12,372	163	F	F	135	35	1981
16. G.O.D. Kearney, NJ Overnight express motor carrier	7,487	12,671	167	C	E	247	4	1982
17. Penn Lyon Homes Selinsgrove, PA Mfrs. modular homes	7,383	23,720	317	D	F	268	75	1981
18. Maul & Sons (10) Irvine, CA Mfrs. menswear	7,233	9,753	133	C	D	33	3	1981
19. Sun Financial (33) Clearwater, FL Provides equipment leasing & brokerage svcs.	7,112	8,366	116	C	B	7	2	1981
20. Morris & Raper Realtors Atlanta, GA Sells real estate	6,743	26,004	380	A	C	12	1	1979
21. Manask & Carl Toluca Lake, CA Contract food svcs.	6,118	8,083	130	D	F	200	50	1981
22. Group Benefit Services (76) Hunt Valley, MD Group insurance administration	6,070	11,045	179	B	D	15	2	1980
23. Systech San Diego, CA Mfrs. & mkts. communication subsysts.	5,811	10,286	174	C	F	101	12	1981
24. RJO Enterprises (39) Lanham, MD Provides systs. engineering svcs.	5,510	14,753	263	D	D	281	5	1979
25. STB Systems Richardson, TX Designs & mfrs. enhancement products	5,279	18,289	340	C	D	90	8	1981

[illegible]

CHARTS TYPESET BY B.P.E. GRAPHICS

#44
INTEGRATED SYSTEMS ANALYSTS INC. ARLINGTON, VA.

WALTER P. CALAHAN

C. Michael Gooden

As a U.S. Navy combatant in the Persian Gulf detects an enemy plane, the 50-millimeter cannons on its foredecks automatically rotate to zero in on the approaching target. As likely as not, the interfaces that link the radar to the cannon are designed by a company like Integrated Systems Analysts (ISA).

Cofounded by C. Michael Gooden in 1980 after a 17-year career with the navy, ISA gained its foothold in military contracting through the federal government's minority business development program—and like many minority-owned companies, has spent the time since trying to get out from under its stigma. "It's a strained environment," he says. "We're constantly having to dispel the image that, as a minority contractor, we can't perform successfully." Gooden has apparently been successful enough that he can afford not to bid on such politically controversial projects as the MX missile and the B-1 bomber, which are more likely to be suddenly canceled with a change in Administration or public opinion. He has also been careful not to tie his company's prospects to any particular weapons system: no one contract supports more than 10% of his staff.

	Company (1986 rank)	1982–86 Percent	'86 sales	'82 sales	Profit range*		No. of employees		Date
26.	**WordPerfect** Orem, UT Develops & mfrs. computer software	5,160%	$47,549	$904	B	C	370	16	1979
27.	**Strategic Data Systems** Sheboygan, WI Develops application software	4,840	5,681	115	B	F	60	8	1981
28.	**Early Cloud** Newport, RI Sells software products	4,783	5,567	114	B	E	20	6	1981
29.	**Action Systems** Indianapolis, IN Provides technical consulting svcs.	4,769	6,914	142	E	A	40	3	1982
30.	**Special Care** Philadelphia, PA Provides in-home health-care svcs.	4,729	5,795	120	C	F	21	1	1982
31.	**ABC Supply** (1) Beloit, WI Distr. building supplies	4,645	216,020	4,553	D	D	650	20	1979
32.	**GRID Systems** Fremont, CA Mfrs. laptop computers & communication systs.	4,617	56,600	1,200	C	F	300	40	1979
33.	**Business Information Technology** Wilmington, DE Provides business systs. consulting svcs.	4,585	5,153	110	C	B	63	3	1981
34.	**Ghafari Associates** Livonia, MI Provides architecture & engineering svcs.	4,441	5,495	121	D	D	82	8	1982
35.	**Contract Professionals** Pontiac, MI Provides technical temporary-help svcs.	4,357	9,137	205	D	C	17	3	1982
36.	**Quality "S" Manufacturing** (44) Phoenix, AZ Mfrs. trailer hitches	4,295	8,965	204	B	B	70	5	1977
37.	**Blackbaud Microsystems** Huntington, NY Supplies turnkey computer systs.	4,287	4,606	105	D	F	45	3	1981
38.	**Emmis Broadcasting** Indianapolis, IN Radio broadcasting	4,273	20,376	466	F	F	127	30	1979
39.	**MicroSolutions** Dallas, TX Sells microcomputers & software	4,250	6,047	139	D	B	12	2	1982
40.	**Trinity Computing Systems** Houston, TX Mfrs. medical software	4,156	4,597	108	C	F	36	4	1982
41.	**Richard Young Office Prods.** (26) Deerfield Beach, FL Distr. computer supplies & accessories	4,100	16,465	392	D	D	37	8	1979
42.	**Distinctive Business Products** Alsip, IL Sells & svcs. business equipment	3,986	5,107	125	D	E	91	3	1982
43.	**Interactive Business Systems** (23) Oak Brook, IL Provides data-processing consulting svcs.	3,979	6,731	165	D	F	110	12	1981
44.	**Integrated Systems Analysts** (20) Arlington, VA Defense systs. engineering	3,907	21,079	526	D	D	446	22	1980
45.	**Advanced Systems Development** Arlington, VA Provides computer consulting svcs.	3,889	4,667	117	D	C	86	4	1979
46.	**Communications International** Norcross, GA Sells & leases telecommunications systs.	3,883	5,695	143	C	F	90	12	1980
47.	**Curtis Manufacturing** Peterborough, NH Mfrs. computer accessories	3,873	6,674	168	D	C	18	2	1982
48.	**Magnetic Data** Eden Prairie, MN Mfrs. & mkts. computer equipment	3,805	10,309	264	C	F	109	33	1982
49.	**Bytex** Southborough, MA Mfrs. electronic matrix switches	3,763	24,958	646	D	F	220	24	1980
50.	**C. A. S. I.** Boca Raton, FL Mfrs. computer software & systs.	3,708	5,788	152	E	F	78	7	1981
51.	**Stamper Industries** Carrollton, TX Mfrs. aluminum windows & doors	3,655	18,439	491	D	F	240	20	1981
52.	**Waste Energy Technology** Bedford, MA Operates waste-to-energy facilities	3,637	7,736	207	D	F	119	4	1981
53.	**American Communications Group** Lauderhill, FL Mfrs. telecommunications equipment	3,617	3,828	103	A	B	56	12	1980
54.	**Distribution Plus** Frederick, MD Distr. computers & peripheral equipment	3,577	20,702	563	D	D	47	12	1978
55.	**International Micro Systems** Miami, FL Distr. microcomputer products	3,529	6,968	192	D	E	19	2	1982
56.	**Historical Developers of PA** Philadelphia, PA Develops historical residential buildings	3,489	17,334	483	B	F	22	5	1980
57.	**Intergroup of Arizona** Tucson, AZ Health maintenance organization	3,482	39,400	1,100	D	E	60	12	1982
58.	**Aquatran** Kingwood, TX Provides overseas mailing & shipping svcs.	3,415	3,656	104	C	F	26	2	1982
59.	**Logistix** (116) Milpitas, CA Mfrs. software & hardware	3,376	23,361	672	D	B	60	15	1974
60.	**Southeast Holding** Charlotte, NC Provides asset mgmt. & construction svcs.	3,335	20,059	584	D	F	75	2	1982

[illegible]

Company (1986 rank) [illegible]	[illegible] 1982–86 Percent [illegible]	'86 sales [illegible]	'82 sales [illegible]	Profit range*		No. of employees		Date [illegible]
				[illegible]	[illegible]	[illegible]	[illegible]	
61. C. J. P. Development (163) Cranbury, NJ Distr. & installs residential siding	3,285%	$8,531	$252	D	F	210	40	1972
62. JAC Creative Foods Los Angeles, CA Processes fish products	3,236	13,011	390	D	F	125	35	1981
63. Profile Records New York, NY Record company	3,195	13,313	404	A	F	9	4	1981
64. Relational Technology Alameda, CA Mfrs. computer software	3,105	28,138	878	C	C	270	35	1980
65. Future Shape International Wailingford, CT Mfrs. exercise & suntanning equipment	3,100	8,000	250	C	D	24	2	1982
66. D. D. F. Transportation (144) Buffalo, NY Provides trucking transportation	3,065	4,364	137	C	D	25	4	1981
67. E C (89) Oak Ridge, TN Provides engineering consulting svcs.	3,085	15,702	493	D	D	400	21	1977
68. East Coast Computer Systems Red Bank, NJ Distr. turnkey computer systs.	3,058	3,600	114	B	B	15	8	1980
69. A-M Homes Santa Barbara, CA Develops property & builds homes	3,019	96,759	3,102	D	D	145	11	1979
70. Applied Energy Services (12) Arlington, VA Operates independent power facilities	2,915	22,193	736	D	F	180	17	1981
71. BCP Technical Services New Orleans, LA Provides engineering consulting & technical svcs.	2,905	4,958	165	D	A	68	12	1981
72. Island Water Sports (31) Deerfield Beach, FL Sells water sporting goods	2,871	10,400	350	B	B	55	5	1979
73. Super 8 Motels Aberdeen, SD Franchises economy motels	2,861	58,518	1,976	F	B	216	24	1973
74. Todays Temporary Dallas, TX Provides temporary-help svcs.	2,835	14,616	498	D	D	48	10	1982
75. Ellis-Walker Builders Fayetteville, NC General contractor	2,814	6,002	206	D	D	25	10	1979
76. Hutronix Douglas, AZ Mfrs. cables	2,748	4,471	157	B	F	130	10	1981
77. Information Technology Services Hauppauge, NY Distr. computer products	2,721	8,604	305	D	C	29	9	1980
78. CMC Santa Barbara, CA Mfrs. computer networking products	2,705	9,004	321	C	F	50	28	1981
79. Jacore Systems (185) Marietta, GA Supplies minicomputer systs.	2,685	50,129	1,800	C	C	57	30	1979
80. Labrec Financial Group (176) Nashville, TN Provides financial svcs.	2,660	9,330	338	D	C	18	7	1976
81. U-Save Auto Rental of America (225) Hanover, MD Used & new vehicle rental franchisor	2,589	7,772	289	D	D	9	3	1979
82. Napit Contracting Hampton, VA General contractor	2,578	5,973	223	C	D	150	20	1981
83. Lifetree Software (37) Monterey, CA Publishes software	2,562	4,819	181	B	C	36	5	1981
84. Teleconnect (46) Cedar Rapids, IA Provides telecommunications svcs.	2,530	113,765	4,326	D	F	1,174	75	1979
85. PSI (27) Costa Mesa, CA Overhaul contractor	2,503	12,338	474	D	C	460	30	1981
86. Burns International Phoenix, AZ Provides real-estate mgmt. svcs.	2,485	17,292	669	C	C	65	4	1975
87. Thomas Design & Engineering Svc. (51) Swartz Creek, MI Designs machines & molds	2,483	7,776	301	E	A	245	18	1980
88. Health Tec Palmer, MA Mfrs. adult disposable diapers	2,471	8,100	315	D	F	60	14	1981
89. Code-Alarm (119) Madison Heights, MI* Mfrs. automotive security systs.	2,460	8,013	313	C	E	107	11	1979
90. Arkay Video Productions Manville, NJ Produces videos	2,445	3,385	133	D	D	13	1	1982
91. Holton Erectors (117) Wixom, MI General contractor	2,435	4,107	162	C	E	40	15	1980
92. Singer Consultants (208) Clearwater, FL Provides mgmt. & marketing consulting svcs.	2,398	4,396	176	D	D	75	7	1981
93. Teltrend St. Charles, IL Mfrs. telecommunications equipment	2,393	32,359	1,298	B	C	276	40	1979
94. O/E Automation (141) Troy, MI Office automation sales & consulting	2,352	52,845	2,155	C	B	359	10	1979
95. Aquidneck Management Associates Middletown, RI Provides engineering & systs. mgmt. consulting svcs.	2,341	6,004	246	C	B	143	14	1981

[illegible]

#70 APPLIED ENERGY SERVICES INC. ARLINGTON, VA.

WALTER P. CALAHAN

Roger Sant

In his capacity as an energy adviser to President Ford and head of the Mellon Institute's Energy Productivity Center, Roger Sant thought he saw a way to make money shipping coals to Newcastle.

It's called cogeneration. Like most other electric companies, Applied Energy Services burns coal or oil or gas to generate heat that turns turbines that generate electricity. And like most electric companies, that process produces a fair amount of waste heat. But unlike most electric companies, Sant doesn't just let the heat go up into the air. He turns it into steam and sells it to his neighbors—an oil refinery in Houston, for example, or a chemical plant in western Pennsylvania.

"We are part of a major restructuring of a huge industry," says Sant, who estimates cogeneration, on average, cuts the cost of generating a kilowatt of electricity by as much as 10%. Nor is selling such power much of a problem: a 1978 federal law requires large utility companies to buy the electricity from these free-lance competitors at a price equal to the cost of the utility's own energy.

#97
SHREDEX INC.
BOHEMIA, N.Y.

IDA WYMAN

Michael Falco

Fawn Hall and Ollie North have been very, very good to Shredex. The famous White House duo is credited with boosting shredding machine sales by nearly 50% over this past summer. And the gain is not just government business, either. These days, federal agencies account for only 23% of Shredex sales. The real growth is coming from the private sector, where having a shredding machine has become a status symbol akin to an office with a window or a rosewood desk.

"These are no cloak-and-dagger, back-room machines," says president Michael Falco of the $500 to $18,000 cutter-uppers. "These are among the fastest-growing office products on the market, replacing the trash basket next to copiers and computer printers."

Falco, however, is not unmindful of how important a government scandal can be for boosting private-sector sales. Five years ago, he launched his company with a "Watergate" series. But he doesn't see any long-term market for a "Contragate" model—at least not yet.

	Company (1986 rank)	1982–86 Percent	'86 sales	'82 sales	Profit range		[illegible]		Date
96.	**Schmidt-Cannon** City of Industry, CA Distr. incentive merchandise	2,340%	$8,441	$346	D	A	39	10	1980
97.	**Shredex** Bohemia, NY Imports paper-shredding machines	2,325	4,147	171	D	C	13	2	1982
98.	**Read** Middleboro, MA Mfrs. gravel-screening equipment	2,299	9,906	413	D	F	112	6	1980
99.	**Palmer** Union, NJ Retails & franchises videocassettes	2,295	3,808	159	D	E	39	8	1981
100.	**American Farm Products** Ypsilanti, MI Sells agricultural products	2,212	3,052	132	C	F	33	3	1982
101.	**[illegible]** North Palm Beach, FL Mfrs. industrial & building products	2,185	300,070	13,248	D	D	1,000	175	1978
102.	**Custom Living Homes & Communities** Chester, NJ Constructs new homes	2,190	41,100	1,795	D	D	167	5	1973
103.	**SKC Electric** (57) Lenexa, KS Electrical design & construction	2,140	7,303	326	D	F	98	27	1980
104.	**Commonwealth Tool Specialty** (78) Roanoke, VA Distr. industrial cutting tools	2,126	3,161	142	D	C	17	6	1981
105.	**Clean Harbors** (107) Braintree, MA Provides environmental hazardous waste svcs.	2,111	46,723	2,113	D	E	375	15	1980
106.	**ABS** Wichita, KS Direct-mail production	2,096	4,413	201	D	D	63	6	1978
107.	**Glenn, Nyhan & Assoc.** (118) San Francisco, CA Provides health-care insurance svcs.	2,071	7,185	331	C	F	91	12	1980
108.	**Computerware** Fairless Hills, PA Sells & svcs. microcomputers	2,032	11,045	518	D	D	55	3	1982
109.	**KOH Systems** (95) Rockville, MD Provides ADP & telecomm. mgmt. consulting svcs.	2,001	6,368	303	D	C	140	12	1980
110.	**Oldenburg Group** Milwaukee, WI Mfrs. component parts; lighting fixtures	1,996	9,725	464	C	F	225	6	1943
111.	**Control Systems** St. Paul, MN Mfrs. computers	1,978	9,610	483	D	F	80	5	1976
112.	**KTI Holdings** Guttenberg, NJ Develops alternative energy projects	1,974	4,251	206	B	F	37	4	1982
113.	**Academic Guidance Services** (179) Marlton, NJ Provides computerized guidance svcs.	1,962	2,248	109	A	A	37	8	1975
114.	**Impact Systems** San Jose, CA Mfrs. & sells computer-control systs.	1,967	23,405	1,138	D	F	190	20	1981
115.	**Golden West Temporary Services** Santa Clara, CA Provides temporary-help svcs.	1,948	9,749	478	D	D	18	3	1977
116.	**ORTTECH** Willoughby, OH Distr. power transmission components	1,939	2,916	143	D	F	11	4	1980
117.	**Infinity Communications** Tempe, AZ Sells & svcs. office products	1,936	13,904	683	D	F	85	6	1982
118.	**American Nursing Resources** Overland Park, KS Provides home health-care svcs.	1,910	15,521	772	D	F	497	24	1982
119.	**After the Stork** Albuquerque, NM Retails mail-order children's clothing	1,897	2,976	149	B	A	45	2	1980
120.	**Gary A. Taylor Construction** (157) Jackson, TN General contractor	1,889	2,944	148	C	B	20	6	1979
121.	**Greater California Dental Plan** (182) Canoga Park, CA Prepaid dental plans	1,882	3,290	166	C	C	10	3	1979
122.	**Temps** (8) Washington, DC Provides temporary-help svcs.	1,882	19,364	987	D	F	68	3	1981
123.	**Gearcon General Contractors** Albuquerque, NM Commercial building contractor	1,861	2,844	145	D	E	11	3	1980
124.	**D. F. M. Enterprises** North Haven, CT Mfrs. under-bridge inspection equipment	1,852	2,011	103	D	D	10	5	1979
125.	**Corporate Supply** Van Nuys, CA Supplies computers & office supplies	1,851	3,200	164	C	A	23	2	1982
126.	**American Leisure Industries** (169) Lanham, MD Travel company	1,848	35,681	1,832	C	E	166	35	1978
127.	**Dytronix** (143) Dallas, TX Provides computer software consulting svcs.	1,842	5,942	306	C	D	50	3	1979
128.	**W. T. Quinn** Somerset, NJ Publishes advertising catalogs	1,834	3,907	202	D	E	24	1	1982
129.	**Performance Coatings** (210) Ukiah, CA Mfrs. & mkts. architectural coatings	1,797	2,295	121	A	F	10	1	1977
130.	**U.S. Agri Development** Irvine, CA Develops & manages agricultural properties	1,792	2,913	154	A	A	3	1	1981

#133
OPERATION BASS INC. GILBERTSVILLE, KY.

DUANE SALSTRAND

Mike Whitaker

Most people can only fantasize about turning their hobby into a career. Mike Whitaker is one of the lucky ones. The former football coach and traveling salesman took $15,000 and a yen to fish and turned it into what has become the largest fishing organization in the United States. Each year, nearly all of the 24,000 active members of Operation Bass sign up for one of the club's 126 fishing tournaments held around the country, where the object is to weigh in with the fattest five to seven bass. Participants who do well in local contests move on to regional events and eventually the national competition, where the top prize is $100,000. Last year, that worked out to $4,760 per pound.

But there is more to his business than simply the tournaments, Whitaker soon found out. What started as an annoying chore—a club magazine written and pasted up on the family's kitchen table—has now turned into a nice little profit center for his company, representing nearly 20% of gross income. Indeed, it's such a fast-growing area that Whitaker can't find much time these days for what remains his favorite pastime—fishing.

	Company (1986 rank)	1982–86 Percent	'86 sales	'82 sales	Profit range*		No. of employees		Date
131.	**Expoconsul International** Princeton, NJ Organizes trade shows & conferences	1,768%	$2,727	$146	A	E	22	1	1981
132.	**Alexia Natural Fashions** Sausalito, CA Operates women's apparel stores	1,755	5,212	281	C	D	82	8	1981
133.	**Operation Bass** Gilbertsville, KY Operates fishing tournaments	1,735	2,789	152	F	F	15	7	1979
134.	**Computer Shopper of Titusville** (251) Titusville, FL Publishes magazine	1,723	5,979	328	C	C	69	20	1979
135.	**Mountain Computer** (295) Scotts Valley, CA Mfrs. microcomputer peripherals	1,721	53,591	2,943	D	D	326	50	1977
136.	**Landair Transport** Greeneville, TN Contractor of air cargo	1,702	13,067	725	D	C	258	42	1981
137.	**Embree Interior Resources** Chicago, IL Distr. office furnishings	1,702	5,407	300	D	F	20	5	1982
138.	**Eastern Marine Construction** (288) Nashua, NH Provides construction svcs.	1,692	2,097	117	D	F	28	1	1981
139.	**White Pine** Middleton, WI Imports clothing	1,689	4,186	234	D	C	40	3	1981
140.	**Pathology Associates** Hyattstown, MD Provides biomedical research support svcs.	1,673	4,237	239	D	F	110	9	1981
141.	**John Paul Mitchell Systems** (71) Chatsworth, CA Sells professional hair-care products	1,663	24,132	1,369	A	A	23	9	1980
142.	**Porta Printer Systems** Largo, FL Systs. integrator	1,660	8,692	494	D	F	71	33	1976
143.	**Discover the World Marketing** Scottsdale, AZ International travel marketing	1,647	2,953	169	D	B	21	2	1981
144.	**Consolidated Dutchwest** (111) Plymouth, MA Retails mail-order wood stoves	1,637	18,465	1,063	E	F	75	20	1980
145.	**USRobotics** Skokie, IL Mfrs. electronic data-communications equipment	1,606	19,805	1,161	C	F	125	14	1976
146.	**Financial Supermarkets** (193) Peekskill, NY Provides financial svcs.	1,575	1,843	110	A	E	20	2	1978
147.	**Little** (164) Salt Lake City, UT Provides mortgage field svcs.	1,575	2,764	165	C	D	26	6	1979
148.	**Mid-Atlantic Medical Services** East Rutherford, NJ Rents specialty medical equipment	1,549	1,797	109	A	A	25	10	1976
149.	**Personal Computer Centre** Lawndale, CA Sells computers & peripherals	1,543	23,000	1,400	D	D	51	6	1976
150.	**BTG** Vienna, VA Computer systs. engineering & development	1,542	11,858	722	D	D	87	4	1982
151.	**Robec** (115) Horsham, PA Distr. microcomputer equipment	1,529	64,086	3,934	D	D	128	20	1978
152.	**Silver Lining Seafoods** Ketchikan, AK Processes seafood	1,508	6,321	393	C	F	50	25	1981
153.	**Captive-Aire Systems** (43) Raleigh, NC Mfrs. kitchen-ventilation equipment	1,508	6,495	404	C	C	65	10	1979
154.	**Queue** Bridgeport, CT Publishes educational software	1,500	2,224	139	D	F	15	3	1980
155.	**Techmatics** Arlington, VA Provides engineering svcs.	1,474	4,234	269	C	C	66	7	1982
156.	**Datatel** (132) Cherry Hill, NJ Mfrs. data-communications equipment	1,463	12,033	770	C	C	109	22	1979
157.	**Wexco International** (189) Los Angeles, CA Construction engineering mgmt	1,455	2,411	155	C	A	45	12	1981
158.	**Shawmut Design & Construction** (52) Boston, MA Provides construction, architecture, & engineering svcs.	1,455	7,684	494	C	D	86	15	1982
159.	**Resource Information Mgmt. Systs.** (28) Naperville, IL Provides systs. to automate health-care industry	1,455	12,801	823	C	C	85	17	1981
160.	**Aim Executive** (159) Toledo, OH Provides executive recruiting & temporary-help svcs.	1,446	6,044	391	A	B	48	16	1977
161.	**Dental Center Service** Beachwood, OH Full-service dental centers	1,445	10,323	668	F	A	250	15	1982
162.	**Dynacom Telecommunications** (125) Watertown, MA Sells business telephone systs.	1,411	3,142	208	C	D	35	6	1980
163.	**Karmak Software & Computer Svcs.** Carlinville, IL Develops and sells computer software	1,407	1,778	118	D	F	20	4	1981
164.	**Van Horn Designs** Alexandria, VA Mfrs. & sells clothing accessories	1,407	2,049	136	C	E	42	3	1982
165.	**Elson Goot Group** Greenville, SC Advertising agency	1,406	2,816	187	D	F	17	3	1982

[illegible]

	Company (1986 rank) [illegible]	19[illegible]-86 Percent [illegible]	[illegible] Sales	[illegible]	Profit range		No. of employees		Date [illegible]
166.	**Superior Seeds** Pasco, WA Distr. agricultural seeds	1,398%	$3,714	$248	D	B	10	1	1982
167.	**800-Software** Berkeley, CA Supplies value-added personal-computer products	1,388	21,246	1,428	D	D	66	6	1982
168.	**Career Blazers of White Plains** White Plains, NY Provides personnel svcs.	1,385	2,718	183	C	F	16	8	1982
169.	**Jones & Neuse** Austin, TX Provides engineering & environmental consulting svcs.	1,378	3,562	241	A	B	66	4	1982
170.	**Second City Systems** (137) Northbrook, IL Distr. facsimile products	1,376	3,986	270	D	C	56	8	1980
171.	**Darkroom** Northridge, CA Commercial photo lab	1,375	1,800	122	A	C	12	5	1973
172.	**IMRS** Stamford, CT Develops & mkts. financial software	1,368	1,674	114	D	C	18	2	1981
173.	**Roberts Welding Contractors** (270) Winterville, NC Industrial contractor	1,343	4,229	293	E	E	150	17	1977
174.	**Astrop Advisory** Atlanta, GA Provides investment counseling svcs.	1,342	2,293	159	B	A	16	3	1982
175.	**Gibson Group** (7) Cincinnati, OH Mkts. paper & paperboard	1,339	52,428	3,643	D	D	8	7	1981
176.	**Strategic Radio Research** Chicago, IL Provides market-research svcs.	1,333	1,476	103	F	F	14	3	1980
177.	**Crosby Vandenburgh Group** (58) Boston, MA Publishes magazines, guides, & directories	1,325	13,312	934	F	F	50	10	1980
178.	**North American Roofing** (167) Carmel, IN Provides roofing svcs.	1,324	12,100	850	C	D	140	35	1980
179.	**Advanced Energy Industries** (56) Fort Collins, CO Mfrs. semiconductor products	1,322	7,720	543	D	B	135	8	1981
180.	**Modular Mining Systems** Tucson, AZ Mfrs. computer systs.	1,317	4,322	305	B	F	30	6	1979
181.	**Steven J. Levine & Associates** Santa Fe Springs, CA Distr. restaurant equipment	1,315	3,397	240	C	F	29	5	1980
182.	**Advertising Consultants** Tulsa, OK Recruitment & specialty advertising	1,299	3,385	242	D	F	9	2	1981
183.	**McClanahan** (317) New York, NY Packages textbooks	1,297	5,407	387	A	A	11	2	1976
184.	**Physicians Weight Loss Centers** (391) Akron, OH Weight-loss franchisor	1,295	16,853	1,208	A	A	38	12	1979
185.	**Drug Emporium** (207) Worthington, OH Operates discount drugstores	1,286	240,983	17,392	D	D	1,170	100	1977
186.	**Sytek** (61) Mountain View, CA Network data-communications systs.	1,278	91,040	6,608	C	F	511	124	1979
187.	**Walsh Equipment** Doraville, GA Sells & svcs. hydraulic cranes	1,276	3,523	256	D	F	10	2	1981
188.	**Strategic Management Group** (79) Philadelphia, PA Mkts. business simulations & mgmt. software	1,272	2,868	209	C	C	31	5	1981
189.	**Financial Proformas** (160) Walnut Creek, CA Provides credit-analysis software svcs.	1,269	1,780	130	D	D	25	5	1981
190.	**Ridge Electric** East Sparta, OH Provides construction svcs.	1,264	1,896	139	D	A	20	8	1980
191.	**Quality Quartz Products** Newbury, OH Mfrs. quartz products	1,263	1,404	103	B	F	31	10	1982
192.	**I. B. Diffusion** Chicago, IL Mfrs. & distr. women's apparel	1,254	43,029	3,179	C	F	110	23	1979
193.	**OMNI Resources** (120) Millbury, MA Software finishing; mfrs. disks	1,253	3,072	227	F	E	45	7	1980
194.	**Flam & Russell** (84) Horsham, PA Provides engineering svcs.	1,252	4,813	356	D	F	52	12	1980
195.	**FLS Services** Dallas, TX Sells insurance programs	1,249	1,578	117	A	A	26	8	1979
196.	**Information Systems & Network** (18) Bethesda, MD Provides telecommunications engineering svcs.	1,246	28,148	2,091	B	A	435	73	1980
197.	**United Agencies** Cape Canaveral, FL Mkts. insurance	1,241	6,411	478	D	E	5	2	1980
198.	**Central Coast Analytical Services** San Luis Obispo, CA Provides environmental lab testing svcs.	1,238	1,351	101	C	A	40	4	1955
199.	**Original Copy Centers** (232) Cleveland, OH Provides legal & corporate copy svcs.	1,226	2,095	158	C	B	36	4	1975
200.	**Datamatic** (93) Richardson, TX Provides telecommunications systs. svcs.	1,225	9,219	696	D	F	40	14	1980

[illegible]

#175
THE GIBSON GROUP INC. CINCINNATI

RICK DIERINGER

The Donohoos

Dad is the visionary. Older son is the planner. Younger son is the realist. Together, the three Donohoos started The Gibson Group paper brokerage in 1981, and today—with the help of one sales executive and four administrative assistants—they run a $52-million business. That works out to some $6.5 million per employee—the highest productivity of any company on this year's INC. 500.

Since 1935, Joseph, the elder Donohoo, has been involved with more than two dozen start-ups, including several in the paper industry. And he knew that most mills have excess paper and paperboard to sell. It is those excesses that The Gibson Group agrees to broker.

So far, it has been a lean if somewhat far-flung operation. Father Joe works out of his home in Florida, while his oldest son William does his selling from his home in California. It is left to Richard, the younger son and treasurer, to oversee the company's finances and small staff from the company's headquarters on the second floor of a renovated house in a quiet Cincinnati neighborhood. There are no company trucks, no storage facilities, no fancy computer systems. Here's a company that truly gives new meaning to the term "paper entrepreneurship."

But not for long. In October, The Gibson Group purchased its own paper mill in Harriman, Tenn.

#225 INSURANCE CONSULTING ASSOCIATES INC. PETALUMA, CALIF.

ROBERT HOLMGREN

Ronald Blanquie

To the neighbors it seemed so sad: a house gutted and a bereaved homeowner wondering why anyone would have wanted to burn his home down. But to the investigators of Insurance Consulting Associates, it didn't look quite so mysterious. On quick inspection, it seemed as if there had been a neatly sawed hole in the first-floor ceiling. And on further investigation, it was discovered that the bereaved homeowner had, conveniently enough, rented a chain saw the very weekend of the mysterious fire. The man was later convicted of arson and sent to prison. And Ronald Blanquie had made a loyal client of yet another insurance company.

"About 20% of all insurance claims are fraudulent," says Blanquie, "and most people who make payouts have no process to detect it." In addition to insurance companies, Blanquie's customers include a growing number of self-insurers, from local governments to businesses to physicians unwilling to pay large malpractice insurance fees.

	Company (1986 rank)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
201.	**Laser Fare Ltd.** Smithfield, RI Provides laser-machining svcs.	1,224%	$4,050	$306	D	A	65	19	1980
202.	**Plow & Hearth** (301) Madison, VA Retails mail-order products	1,217	3,674	279	F	F	18	4	1980
203.	**Total-Dent** (146) Cromwell, CT Dental practice	1,216	2,632	200	F	A	56	8	1976
204.	**PacSoft** Kirkland, WA Develops & mkts. software	1,210	1,533	117	C	B	14	2	1981
205.	**Bennett Funding Group** (73) Syracuse, NY Leases equipment	1,209	62,843	4,800	D	D	69	16	1977
206.	**Micro Manufacturing Systems** Columbus, OH Develops & sells software	1,209	1,597	122	C	A	25	3	1979
207.	**First Capitol Computer** St. Peters, MO Mfrs. microcomputer products	1,193	1,384	107	C	C	9	1	1981
208.	**Dealer Information Systems** (201) Bellingham, WA Mfrs. & supplies software	1,192	8,375	648	C	F	85	15	1980
209.	**Innovative Computer Mgmt. Systs.** (188) Louisville, KY Develops & supports computer software	1,190	2,258	175	D	F	25	5	1980
210.	**Advanced Medical Systems** (13) Horsham, PA Distr. medical equipment	1,189	11,179	867	C	C	14	4	1980
211.	**Berger** (131) Denver, CO Provides information mgmt. consulting	1,181	2,255	176	C	F	45	11	1981
212.	**CDC Financial** West Hartford, CT Provides mortgage & equity financing	1,178	4,280	335	B	B	17	5	1981
213.	**Quad-S Consultants** Baton Rouge, LA Provides automation consulting svcs.	1,174	1,936	152	C	C	21	2	1981
214.	**Data Management Design** Reston, VA Provides software support	1,170	1,803	142	F	A	19	5	1981
215.	**Basicomputer** (97) Akron, OH Sells personal computers	1,169	49,496	3,900	E	D	180	35	1978
216.	**Landex** Lehigh Acres, FL Manages time-sharing resorts	1,158	15,100	1,200	D	D	250	70	1981
217.	**Alliance Research** Chatsworth, CA Distr. electronic supply parts	1,150	17,889	1,431	A	A	80	35	1979
218.	**New Morn** Leominster, MA Mfrs. natural cereals & products	1,150	2,500	200	C	D	4	4	1982
219.	**Branwood Manufacturing** Phoenix, AZ Mfrs. waterbeds	1,149	2,110	169	D	B	50	13	1981
220.	**Comlinear** (110) Fort Collins, CO Mfrs. signal-processing components	1,148	4,743	380	F	D	80	9	1980
221.	**American Business Computer** Farmington Hills, MI Develops & distr. software	1,141	1,415	114	F	F	35	5	1976
222.	**Data Systems Computer Centre** (271) Springfield, NJ Installs computers	1,141	62,717	5,055	D	D	152	35	1973
223.	**Kyle, Gordon & Associates** Caldwell, NJ Provides permanent- & temporary-help svcs.	1,136	1,841	149	D	F	7	2	1980
224.	**Marketvision Research** Cincinnati, OH Provides market-research svcs.	1,130	2,399	195	C	F	17	5	1982
225.	**Insurance Consulting Associates** Petaluma, CA Investigates insurance claims	1,125	1,323	108	C	D	28	5	1978
226.	**American Delivery Service** St. Louis, MO Provides courier svcs.	1,112	1,697	140	D	C	90	10	1979
227.	**Roddy Temporary Services** (483) Ann Arbor, MI Provides temporary-help svcs.	1,111	2,421	200	C	B	285	32	1978
228.	**Santa Cruz Operation** Santa Cruz, CA Develops & mkts. software	1,105	17,171	1,425	B	D	300	35	1978
229.	**Lion Coffee** Honolulu, HI Roasts specialty coffees	1,097	2,873	240	D	F	25	10	1980
230.	**Greater Alarm Company** Huntington Beach, CA Installs electrical systems	1,095	1,350	113	D	F	26	4	1981
231.	**Promega** (109) Madison, WI Mfrs. advanced reagent systs.	1,092	4,388	368	D	F	75	22	1978
232.	**Walker Richer & Quinn** (171) Seattle, WA Mkts. computer terminal emulation	1,088	4,860	409	B	D	25	7	1981
233.	**Swintec** (327) Moonachie, NJ Mfrs. & mkts. typewriters & calculators	1,087	44,000	3,708	D	E	56	40	1978
234.	**National Decision Systems** (128) Encinitas, CA Mkts. database applications	1,084	10,824	914	C	A	128	7	1979
235.	**ParaData Comp. Networks** (215) Farmington Hills, MI Distr. computer hardware & software	1,081	9,474	802	D	D	60	20	1979

[illegible]

#254
SLOTLINE GOLF
HUNTINGTON BEACH, CALIF.

SCOTT BRINEGAR

C. R. 'Duke' Duclos

It is a sign of these Republican times that golf is making a comeback. That's one reason that Slotline Golf is on our list for the fourth year running. Another is a more "fore-giving" club design that, by putting extra weight in the heel and toe of the club face, helps to prevent the club head from twisting in the golfer's hand.

Before he began designing golf clubs 15 years ago, C. R. "Duke" Duclos was designing airplanes and space vehicles for McDonnell Douglas Corp. Today, sales of his "inertial" putters account for the majority of Slotline's $7 million in sales, but Duclos has high hopes for his new line of irons and woods, which has been competing head-to-head with the number-one-selling Ping line over the past year. Duclos also plans to beef up his European sales as soon as a new manufacturing, warehousing, and marketing facility is completed in—where else?—St. Andrews, Scotland.

	Company (1985 rank) [illegible]	[illegible] 1982–86 Percent [illegible]	'86 sales [illegible]	'82 s[illegible]	Profit range [illegible]		No. of employees [illegible]		Date [illegible]
236.	**ATK/Bay Area** (227) San Ramon, CA Distr. & remfrs. automobile engines	1,070%	$2,188	$187	C	D	4	2	1977
237.	**Professional Instrument Courses** Deep River, CT Trains private pilots	1,051	1,899	165	E	F	15	3	1980
238.	**SRS Network** (98) New York, NY Provides database & communications consulting svcs.	1,044	7,873	688	D	D	92	22	1978
239.	**CommTek** (80) Boise, ID Publishes magazine	1,035	17,702	1,559	D	F	100	125	1977
240.	**Computer Commun. Specialists** (216) Norcross, GA Data-communications networks	1,034	10,964	967	C	C	89	31	1977
241.	**Documentation Development** New York, NY Provides documentation & training consulting svcs.	1,034	3,208	283	A	C	85	6	1980
242.	**Windmill Woodworking** Sheboygan Falls, WI Mfrs. slat-wall display furniture	1,033	1,598	141	D	B	24	9	1980
243.	**Custom Cable Industries** Tampa, FL Mfrs. computer cable assemblies	1,031	[illegible],953	261	C	C	55	9	1980
244.	**HealthStream** Chattanooga, TN Mkts. prepaid health programs	1,031	6,279	555	F	F	33	6	1980
245.	**Abacus II Computers** (70) Toledo, OH Retails computers	1,025	12,557	1,116	E	D	60	9	1980
246.	**Evcor Systems** Lisle, IL Sells & svcs. office & mailing equipment	1,019	5,314	475	D	B	132	5	1979
247.	**CAP International** (221) Marshfield, MA Provides consulting & market-research svcs.	1,017	4,279	383	A	D	43	7	1979
248.	**Professional Carpet Systems** Forest Park, GA Provides carpet-cleaning svcs.	1,011	2,199	198	A	B	45	22	1979
249.	**Human Resources** Stamford, CT Provides permanent- & temporary-help svcs.	1,000	2,410	219	D	B	6	4	1979
250.	**Data Source Media** Lincoln, NE Distr. computer supplies	992	1,147	105	C	D	10	1	1973
251.	**Word & Data Processing Products** (136) Omaha, NE Distr. computers & develops software	991	6,925	635	D	C	41	19	1979
252.	**Contact Communications** (280) Elmont, NY Provides radio-paging svcs.	984	1,918	177	C	C	16	4	1980
253.	**Logistical Transportation** Jacksonville, FL ICC carriers & construction	981	2,465	228	A	B	10	6	1980
254.	**Slotline Golf** (126) Huntington Beach, CA Mfrs. & sells golf clubs	981	7,283	674	C	E	80	15	1975
255.	**Seltmann, Cobb & Bryant** Memphis, TN Provides management consulting svcs.	978	4,259	395	C	D	72	16	1976
256.	**Lion Chemicals** Snowflake, AZ Mfrs. & supplies chemicals	974	3,834	357	D	E	8	1	1981
257.	**Sundance Spas** (92) Chino, CA Mfrs. portable spas	974	27,195	2,533	D	D	250	30	1977
258.	**MAC Construction & Excavating** Sellersburg, IN Highway & utility construction	973	6,075	566	D	F	60	25	1980
259.	**Bowser Cabinet & Casework** (133) San Diego, CA Mfrs. wood & plastic cabinets	972	1,822	170	C	C	33	4	1979
260.	**Systel Business Equipment** Fayetteville, NC Office automation sales & svcs.	968	5,178	485	D	C	106	11	1981
261.	**Logicraft** Nashua, NH Mfrs. networking computer products	968	2,135	200	F	D	26	2	1975
262.	**Broadway & Seymour** (53) Charlotte, NC Computer systs. & svcs.	967	18,540	1,738	F	D	300	44	1980
263.	**Network Rental** (96) Atlanta, GA Rent-to-own household appliances	963	12,067	1,135	D	C	190	15	1981
264.	**Pulier Mortgage Associates** Indianapolis, IN Mortgage lender	962	7,972	751	A	A	80	12	1976
265.	**Bertucci's** (436) Woburn, MA Operates restaurant chain	957	3,700	350	C	E	200	30	1981
266.	**Schlott** (378) Wayne, NJ Provides real-estate brokerage svcs.	956	46,195	4,375	D	D	550	94	1971
267.	**TRC Temporary Services** (214) Atlanta, GA Provides temporary-help svcs.	955	35,824	3,396	D	D	110	21	1980
268.	**Neoterik Health Technologies** Woodsboro, MD Mfrs. safety equipment	954	1,718	163	D	F	38	4	1981
269.	**Scosche Industries** Simi Valley, CA Distr. auto-sound accessories	940	1,934	186	D	D	25	4	1980
270.	**Outdoor Research** Seattle, WA Mfrs. recreation & travel kits	939	1,153	111	C	C	50	1	1981

[illegible]

#287
RPM PIZZA INC.
GULFPORT, MISS.

LONNY KALFUS

Richard Mueller

The way we figure it, $93.5 million in pizza sales is a *lot* of pizza. In terms of supplies, that adds up to about 5 million pounds of cheese and 2.5 million quarts of tomato sauce each year. End to end, the pepperoni would stretch from Gulfport to Kansas City.

RPM Pizza not only delivers a lot of pizzas, it delivers an important message about franchising—namely, that franchisees can become their own companies of significance. With 242 stores in five states and Canada, RPM is the largest franchisee of the Domino's Pizza empire and one of the largest pizza enterprises in the country. Owner and chairman of the board Richard Mueller started with Domino's as a driver in 1967 before becoming a franchisee, a corporate vice-president, and then a franchisee again—only this time with exclusive Domino's rights to all of Louisiana and Mississippi. Having now moved well beyond its Deep South base, RPM is building new shops at the rate of two and three a month. Will the nation soon satisfy its appetite for the Italian pies? There is no indication of it from this year's INC. 500. Also on the list: The Pizza People (#456), another Domino's franchise; and Massachusetts-based Bertucci's (#265).

	Company (1986 rank) [illegible]	[illegible]	'86 sales	'82 sales	Profit range		No. of employees		Date
271.	**DeWolfe New England** (260) Boston, MA Provides real-estate & financial svcs.	930%	$12,074	$1,172	F	D	54	16	1949
272.	**Computer Mgmt. & Dvlpmt. Svc.** Harrisonburg, VA Develops computer software	927	1,848	180	D	F	42	5	1980
273.	**CardioData** (156) Northboro, MA Mfrs. medical electronics	925	4,891	477	D	F	50	8	1971
274.	**Zack's Famous Frozen Yogurt** (315) Metairie, LA Franchises frozen yogurt shops	920	5,100	500	C	F	82	6	1977
275.	**Michigan Group** Brighton, MI Sells real estate	919	3,547	348	D	F	84	12	1981
276.	**QLM Associates** Princeton, NJ Develops sales promotion & marketing events	916	7,457	734	C	C	29	7	1982
277.	**American Comp. Professionals** (145) Columbia, SC Provides computer consulting svcs.	914	4,208	415	D	E	84	11	1982
278.	**Oneida Asbestos Removal** (152) Marcy, NY Provides asbestos-abatement svcs.	914	4,804	474	D	D	70	10	1981
279.	**Techstaff** Seattle, WA Provides technical temporary-help svcs.	912	1,083	107	D	F	5	4	1980
280.	**Flextronics** (204) Hayward, CA Mfrs. electronic assemblies	905	72,365	7,200	D	D	1,100	300	1969
281.	**Coin Financial Systems** Norcross, GA Develops microcomputer systs.	904	17,664	1,759	D	F	190	33	1980
282.	**Building System Evaluation** Sierra Madre, CA Provides engineering audit svcs.	900	2,250	225	A	D	50	5	1982
283.	**Coventry Manufacturing** Baldwin Park, CA Mfrs. custom clean-room supplies	899	2,548	255	D	A	120	25	1981
284.	**Mobile Offices of Maryland** White Marsh, MD Retails mobile offices & modular buildings	898	1,587	159	C	F	7	2	1981
285.	**TCH Industries** Grand Rapids, MI Mfrs. custom die castings	895	27,558	2,771	D	C	445	30	1982
286.	**Woodworker's Supply** (299) Albuquerque, NM Sells woodworking machinery & supplies	894	18,567	1,868	C	D	52	20	1972
287.	**RPM Pizza** (85) Gulfport, MS Domino's Pizza franchisee	892	93,543	9,431	D	D	722	125	1981
288.	**Presentables-Cinzia** (289) Sausalito, CA Mfrs. women's lingerie	889	2,195	222	B	C	9	3	1980
289.	**Honolulu Premium Products** (217) Honolulu, HI Sells costume jewelry & luggage	889	7,493	758	B	C	22	24	1980
290.	**Currier Construction** Auburn, NY General construction	888	3,072	311	D	F	12	5	1976
291.	**Polycom Huntsman** (253) Washington, PA Compounds thermoplastics	886	72,560	7,360	D	D	166	42	1977
292.	**Accr-A-Data** Farmington, CT Provides data-processing svcs.	884	2,067	210	D	D	15	2	1982
293.	**Skyline Displays** Burnsville, MN Mfrs. portable displays & graphics	881	9,521	971	C	D	63	9	1980
294.	**Foreign Candy** (373) Hull, IA Imports & distr. candy	879	15,901	1,625	C	C	49	18	1978
295.	**Computer Technology Associates** (59) Englewood, CO Provides aerospace systs. engineering svcs.	877	37,640	3,851	D	C	400	80	1979
296.	**Data Forms** Fayetteville, AR Sells business forms & computer supplies	870	1,406	145	D	F	4	1	1982
297.	**Robbins Communications** (241) Pittsburgh, PA Installs communications cable	869	5,544	572	E	B	110	22	1978
298.	**Molly Maid** Ann Arbor, MI Provides residential cleaning svc.	867	1,160	120	E	F	33	3	1979
299.	**Leisure World Health Club** Highland, IL Operates health clubs	865	1,496	155	B	F	50	10	1982
300.	**National Systems & Research** Colorado Springs, CO Provides systs. engineering svcs.	864	9,172	951	D	D	165	18	1980
301.	**Sunquest Information Systems** (149) Johnstown, PA Designs mgmt. information systs.	863	10,602	1,101	B	D	82	9	1979
302.	**Hard Engineering** (267) Huntsville, AL Mfrs. communications testing equipment	857	1,282	134	C	B	11	2	1981
303.	**Select Temporary Services** Richmond, VA Provides temporary-help svcs.	855	11,836	1,240	D	F	40	27	1966
304.	**Accutest Laboratories** (352) North Brunswick, NJ Environmental & medical testing labs	852	2,627	276	A	D	40	12	1956
305.	**Five Technologies** Montvale, NJ Provides human-resource consulting svcs.	851	2,482	261	C	C	30	2	1981

[illegible]

	Company (1986 rank) Business description	Sales growth 1982–86 Percent increase	'86 sales ($000)	'82 sales ($000)	Profit range*		No. of employees		Date founded
					'86	'82	'86	'82	
306.	**Glendale Envelope** Glendale, CA Sells & prints envelopes	851%	$1,483	$156	D	D	14	3	1981
307.	**Stewart Supply** Fort Worth, TX Distr. apartment-maintenance supplies	850	1,976	208	C	C	9	1	1981
308.	**Network Data Systems** (387) Flushing, MI Develops software	850	1,415	149	F	F	28	6	1980
309.	**Delmarva Systems** Newark, DE Sells & svcs. security systs.	843	2,811	298	D	C	15	5	1981
310.	**Zachary Jackson Copy Service** Los Angeles, CA Provides commercial copying svcs.	843	2,121	225	C	E	43	6	1981
311.	**Starmark** (274) Chicago, IL Provides advertising & marketing public-relations svcs.	840	18,540	1,972	B	C	41	8	1978
312.	**Urban Designs** San Francisco, CA Builder & developer	826	2,389	258	D	F	15	7	1981
313.	**Newbury Comics** (284) Cambridge, MA Sells records, comic books, & posters	822	3,309	359	D	C	38	7	1978
314.	**Computer Intelligence** Raleigh, NC Provides customized software engineering svcs.	820	2,328	253	D	C	27	9	1981
315.	**C-Cubed** Alexandria, VA Designs shipboard communications systs.	815	5,670	620	D	F	88	22	1974
316.	**T/Maker** (304) Mountain View, CA Publishes software	805	1,539	170	C	A	8	2	1980
317.	**COSMOS** Washington, DC Provides research, computing, & consulting svcs.	802	1,110	123	D	D	15	3	1980
318.	**Centrac Associates** (468) Bothell, WA* Provides consulting & construction svcs.	798	7,256	808	E	F	91	30	1978
319.	**Matarazzo Associates** (329) Atlanta, GA Provides int'l tax-consulting svcs.	798	2,881	321	C	A	4	3	1979
320.	**Integral Systems** (330) Walnut Creek, CA Develops human-resources software	796	24,848	2,774	B	F	204	109	1972
321.	**Micro Systems** (485) Fort Walton Beach, FL Mfrs. computer control systs.	[illegible]	2,900	324	D	D	100	20	1976
322.	**GPA Technical Consultants** (340) Cincinnati, OH Provides engineering consulting svcs.	[illegible]	24,266	2,718	F	D	462	130	1979
323.	**Source of Future Technology** New York, NY Provides computer software consulting svcs.	789	1,253	141	D	F	12	3	1981
324.	**VSP Personnel Services** Phoenix, AZ Provides permanent-help svcs.	787	896	101	C	F	18	3	1981
325.	**Environ** Washington, DC Provides chemical risk-assessment & consulting svcs.	785	9,484	1,072	C	C	85	5	1982
326.	**Dash, Straus & Goodhue** Boxborough, MA Laboratory equipment analysis	784	1,600	161	C	A	17	3	1980
327.	**Westlake Graphics** Newbury Park, CA Provides reprographic svcs.	783	2,500	283	D	F	55	8	1979
328.	**Beauty Store & More** Petaluma, CA Operates retail beauty stores	780	4,815	547	C	F	90	50	1979
329.	**National Health Care Affiliates** (34) Buffalo, NY Provides health-care svcs.	780	39,039	4,438	D	F	1,660	178	1977
330.	**William Ravels** Fairfield, CT Provides financial svcs.	771	28,558	3,280	C	D	126	21	1974
331.	**Execu-Flow Systems** (91) Cranford, NJ Sells turnkey computers	769	2,598	299	D	C	28	8	1981
332.	**CQG** Glenwood Springs, CO Provides commodity price-quotation svcs.	767	9,532	1,100	C	F	31	12	1981
333.	**Specialty Cabinets & Fixtures** Savannah, GA Mfrs. custom cabinetry	766	1,499	173	F	F	34	3	1981
334.	**Blagge Enterprises** (184) Rancho Cordova, CA Distr. audiotapes & vid. tapes	763	15,512	1,797	D	D	38	7	1977
335.	**Quality Systems** (122) Vienna, VA Computer systs. engineering & development	762	10,135	1,176	D	D	183	18	1981
336.	**ProSync** Melbourne, FL Provides consulting & training svcs.	761	2,454	285	D	F	58	16	1980
337.	**Copper & Smith** Harrisonburg, VA Provides surveying & engineering svcs.	755	1,240	145	B	F	40	6	1982
338.	**Serrot** Huntington Beach, CA Mfrs. & installs plastic linings for ponds	755	9,258	1,083	C	D	60	12	1978
339.	**Diagnostic Testing** Somerset, MA Medical laboratory	754	1,605	188	D	A	58	7	1981
340.	**Express Courier Systems** New York, NY Provides messenger & courier svcs.	752	4,166	489	D	F	200	38	1981

*A: 16% or more B: 11% to 15% C: 6% to 10% D: 1% to 5% E: Break-even F: Loss [illegible]

#316
T/MAKER CO.
MOUNTAIN VIEW, CALIF.

ROBERT HOLMGREN

Heidi Roizen and Royal Farros

Heidi Roizen finds it amusing that her company is on the list of the country's fastest growing. In a way, that's precisely what she has been trying to avoid.

It all started when her brother enlisted her help in selling his new spreadsheet program. Roizen promptly set about doing what any new M.B.A. fresh out of Stanford Business School has learned to do: spend money. As a result, despite strong sales, their new company nearly faltered.

Then last year it nearly happened again. One of T/Maker's independent software developers had come up with the first desktop publishing program for the IBM personal computer, and within the first 10 weeks, T/Maker had orders for 10,000 copies. What it didn't have was the support staff necessary to provide 24-hour-a-day support services to 10,000 customers and to make constant improvements to the program. Personal Publisher required a bigger company than Roizen or her business partner, Royal Farros, wanted to run, and they promptly sold the program to a larger firm.

"Sales growth is not our objective," says Roizen. High margins are. Let others try to make their companies the next Microsoft, she says. "We like it when we can do 20% of the work and get 50% of the revenue."

#353
MID-SOUTH COMMUNICATIONS INC. MEMPHIS

ALLEN MIMS

Ward Archer

In the 1960s, it was alternative newspapers. In the '70s, it was city magazines. Now, in the entrepreneurial '80s, it's regional business journals that are the hot publishing properties, this year breaking into the INC. 500 for the first time with Mid-South Communications.

There are about 200 of the business regionals around the country now, offering business executives a different perspective and more in-depth coverage than the consumer-oriented reporting of most local newspapers. Journalistically, Ward Archer's Mid-South Memphis and Nashville papers are considered among the best. By one estimate, as much as 90% of the advertising for the business regionals has been siphoned off from local media—newspapers, city magazines, even local radio. But that is about to change: with nearly half the magazines already consolidated into multijournal operations like Mid-South's, they have begun to make a bid for national advertisers as well. It is perhaps no coincidence that advertising pages for business regionals are up 7% this past year—about the same amount that advertising pages in national business publications are down.

	Company (1986 rank) [illegible]	[illegible] 1982–86 Percent [illegible]	'86 sales [illegible]	'82 sales [illegible]	Profit range* [illegible]		No. of employees [illegible]		Date [illegible]
341.	**Technical Support Services** Ossining, NY Provides data-processing maintenance svcs.	752%	$13,617	$1,599	D	C	245	62	1978
342.	**M. W. Halpern** (101) Garland, TX General contracting	751	5,083	597	C	D	40	5	1979
343.	**Tidewater Consultants** Virginia Beach, VA Provides mgmt. & computer systs. consulting svcs.	748	9,111	1,075	C	D	190	50	1976
344.	**Quadrant** North Myrtle Beach, SC Provides residential contract mgmt. svcs.	747	1,771	209	B	F	74	15	1981
345.	**Morgan & Myers** Jefferson, WI Public-relations firm	746	1,852	219	B	F	28	7	1982
346.	**Royal Waterbeds** (257) St. Louis, MO Retails waterbeds, furniture, & accessories	745	14,360	1,700	C	C	100	30	1977
347.	**Creative Designs** Ossining, NY Mfrs. wooden gifts & furniture	744	1,435	170	B	A	35	10	1980
348.	**TeleTime Productions** Great Neck, NY Produces videos	743	1,079	128	B	F	20	4	1978
349.	**Zero Defects** Boise, ID Contract manufacturing	732	2,663	320	C	E	55	22	1980
350.	**Vocational Training Center** (287) St. Louis, MO Operates vocational schools	731	10,659	1,282	A	C	275	15	1961
351.	**Micro Center** (45) Columbus, OH Retails microcomputers & accessories	730	34,471	4,155	D	C	179	25	1980
352.	**JL Associates** (192) Hampton, VA Management svcs. contracting	729	12,053	1,454	D	C	511	192	1978
353.	**Mid-South Communications** Memphis, TN Publishes weekly business journals	728	1,970	238	F	F	48	13	1979
354.	**Field & Associates** Delray Beach, FL Provides corporate-recognition awards	727	2,050	248	D	D	9	1	1981
355.	**Metro Information Services** (261) Virginia Beach, VA Provides computer consulting svcs.	724	9,073	1,101	D	D	190	33	1973
356.	**Profile** (127) Pompano Beach, FL Mfrs. & distr. vertical blinds	723	18,572	2,257	D	F	110	77	1978
357.	**Barry Companies** Wilmington, DE Provides permanent- & temporary-help svcs.	716	5,345	655	E	F	30	10	1977
358.	**Command Security** Poughkeepsie, NY Provides security & private investigation svcs.	715	4,059	498	D	D	343	60	1963
359.	**Graphics Leasing** Waltham, MA Leases equipment	715	4,106	504	A	D	24	7	1981
360.	**Corporate Merchandise** Santa Ana, CA Retails mail-order products	712	1,258	155	B	E	6	2	1982
361.	**Renex** Woodbridge, VA Mfrs. computer peripheral equipment	708	4,298	532	C	B	37	14	1980
362.	**Optim Electronics** (180) Germantown, MD Mfrs. data-acquisition systs.	707	3,480	431	C	F	27	9	1980
363.	**Soil Shield International** Fremont, CA Distr. fabric-care product	707	4,236	525	D	D	16	3	1982
364.	**Guardian Products** Norcross, GA Distr. private-label auto chemicals	704	1,849	230	D	D	5	1	1981
365.	**Windline Seaway** Los Angeles, CA Mfrs. marine hardware	701	1,305	163	C	E	13	4	1980
366.	**R. M. Wieland** Kawkawlin, MI Mfrs. contract furniture	699	4,692	587	E	F	75	7	1977
367.	**Golden Ribbon** Boulder, CO Mfrs. printer ribbons	698	822	103	F	C	17	5	1981
368.	**P. F. O'Connor** Braintree, MA Retails lumber & building materials	698	64,983	8,146	D	D	390	116	1978
369.	**Northeast Quality Products** Haverhill, MA Mfrs. custom labels	697	1,147	144	D	D	13	3	1982
370.	**King's Roofing** (353) Portland, OR Provides commercial & industrial roofing svcs.	692	2,692	340	D	C	22	7	1979
371.	**BMC Software** (32) Sugar Land, TX Develops & mkts. software	691	18,074	2,284	B	B	140	15	1980
372.	**General Computer** (38) Cambridge, MA Mfrs. & distr. computer peripheral equipment	688	23,647	3,000	F	A	125	47	1981
373.	**Infinite Creations** (313) Bamberg, SC Mfrs. all types of bags	686	2,200	280	D	C	85	35	1977
374.	**Bacova Guild** Bacova, VA Mfrs. hardware & home furnishings	686	9,600	1,222	C	E	110	31	1965
375.	**Bax Engineering** St. Charles, MO Provides civil engineering & land surveying svcs.	680	1,755	225	C	B	43	7	1981

[illegible]

376.	**Key Nursing** Thibodaux, LA Provides nursing svcs.	679%	$1,464	$188	C	D	40	4	1982
377.	**Manta-Ray** West Unity, OH Mfrs. custom-injection moldings	678	895	115	D	F	12	6	1951
378.	**EPE** Costa Mesa, CA Mfrs. power distribution equipment	678	55,226	7,100	D	C	450	200	1971
379.	**Townside TV & Appliance** Beckley, WV Retails appliances & electronics	674	3,485	450	D	D	24	6	1981
380.	**El Camino Resources** (219) Sherman Oaks, CA Computer equipment dealer & lessor	673	55,144	7,133	D	D	55	10	1979
381.	**Prima Die Casting** Clearwater, FL Mfrs. zinc & aluminum die casting	672	5,615	727	C	A	80	8	1985
382.	**Townsend Agency** (491) Arlington Heights, IL Provides marketing & advertising svcs.	672	3,225	418	D	E	23	5	1979
383.	**Colorbrite** Minneapolis, MN Provides color separation svcs.	666	8,040	1,050	A	E	66	11	1967
384.	**Mellow Mail** (290) New York, NY Retails mail-order products	665	9,484	1,239	C	D	53	9	1977
385.	**Good News Travels** Easley, SC Operates group tours	665	964	126	C	F	4	2	1981
386.	**Atrium Medical** Hollis, NH Designs & mfrs. artificial arteries	665	2,080	272	D	F	21	7	1981
387.	**Systs. Research & Applications** (305) Arlington, VA Provides computer svcs.	664	19,006	2,487	D	D	293	51	1978
388.	**Novatron** Warren, MI Mfrs. gauge panels	661	4,496	591	D	F	55	11	1981
389.	**SYME** Chagrin Falls, OH Mfrs. metal containers	660	7,413	975	C	F	60	2	1976
390.	**Associated Temporary Staffing** (206) Jacksonville, FL Provides temporary-help svcs.	659	21,585	2,843	D	D	80	55	1979
391.	**PCG Enterprises** Long Beach, CA Provides mgmt. consulting svcs.	659	6,928	913	D	A	90	8	1980
392.	**Energy Support Services** Coraopolis, PA Provides mgmt. & technical support to energy industry	654	5,115	678	D	B	63	12	1982
393.	**Ga[illegible]y Construction** (134) Austin, TX Provides excavation & construction svcs.	654	22,163	2,936	D	C	90	32	1977
394.	**Stn. Co. & Subsidiaries** Belleville, MI Mfrs. testing equipment	654	37,256	4,942	D	E	172	43	1966
395.	**Corporate Resource Development** Atlanta, GA Provides sales, mktg. & mgmt. training svcs.	651	786	102	C	F	12	2	1981
396.	**Dataspace Design & Development** Chatsworth, CA Designs & builds computer centers	651	3,551	473	D	C	8	3	1981
397.	**Butler Ackermann Public Relations** Knoxville, TN Public-relations firm	651	1,111	148	C	E	11	5	1981
398.	**Nor-Cote Chemical** (154) Crawfordsville, IN Mfrs. special inks & coatings	650	2,811	375	C	C	25	6	1976
399.	**Chaffee Industrial Roofing** East Providence, RI Industrial roofing contracting	643	2,377	320	E	E	20	5	1982
400.	**M.I.T. Recruiting Systems Agency** Woodland Hills, CA Executive-search firm	640	1,850	250	A	B	15	2	1982
401.	**Ocean Specialty Manufacturing** Canoga Park, CA Mfrs. plastic advertising products	637	4,373	593	B	D	57	35	1977
402.	**Southern Office Furn. Distrs.** (316) Greensboro, NC Sells office furniture	633	12,162	1,659	D	D	74	12	1979
403.	**Personal Perform. Consultants** (395) St. Louis, MO Employee-assistance programs	633	7,498	1,023	D	D	160	25	1975
404.	**CMC Construction** Oak Ridge, TN General contractor	633	6,241	852	D	C	32	20	1979
405.	**MSI International** (425) Atlanta, GA Provides executive-search & temporary-help svcs.	629	19,225	2,637	D	D	180	91	1968
406.	**McCaren Designs** St. Paul, MN Provides interior plant care svcs.	627	916	126	C	F	16	4	1977
407.	**Wisc. General Cartage & Warehouse** Milwaukee, WI Trucking distributor	626	2,441	336	D	D	54	10	1976
408.	**Teleco USA** (263) Greenville, SC Sells & distrs. phone equipment	626	6,233	858	D	D	32	10	1981
409.	**Erin Benefit Group** Lancaster, PA Sells insurance	626	7,228	996	D	D	35	15	1977
410.	**Glen Ivy Financial Group** (172) Corona, CA Develops real estate	624	25,985	3,588	C	C	400	120	1975

#385 GOOD NEWS TRAVELS INC. EASLEY, S.C.

MARY LOUISE MILLER/PICTURE GROUP

John Tribble

Christmas in Opryland with a pilgrimage to the Minnie Pearl museum. Springtime in Michigan with entertainment by the stars of "The Lawrence Welk Show." A summertime holiday in Dollywood. These are among the offerings of Good News Travels, a Christian group-touring company intent on helping its customers "explore God's creation." Run by John Tribble out of a small Easley, S.C., office, Good News Travels will coordinate about 175 vacations this year for senior groups, civic clubs, and those who want a tour that starts each day with prayer.

Unlike some of the other religious-oriented enterprises around the country, Good News Travels claims it has been unaffected by the Jim and Tammy Faye Bakker scandals at the PTL Club. "We're different in that we offer people something tangible for their money," says Tribble. "It's sad what happened. So many people put their trust in Jim and Tammy Bakker instead of Jesus Christ."

#441
LANDSCAPES UNLIMITED INC. LINCOLN, NEBR.

KEITH GLASGOW

William Kubly

Think of fast-growing companies and where do you picture them? San Jose? Tampa? Boston? How about Lincoln, Nebr.? This city of only 185,000, in the middle of the country, in the middle of an agricultural depression, is home to four companies on this year's INC. 500. There's a publisher of phone books (United Phone Book Advertisers, #6) and a distributor of computer supplies (Data Source Media, #250), a contractor for interior space (Interior Surface, #476) and one for exterior spaces, too (Landscapes Unlimited). Landscapes Unlimited's president William Kubly admits that if he were dependent on the Nebraska economy, he would have been out of business years ago. His company's crews, he says, spend most of their time on the road, building golf courses in other states. Then why stay in Lincoln? Kubly credits a pleasant community, the lively atmosphere of a state capital, and the University of Nebraska's Cornhuskers football games.

	Company (1986 rank)	1982-86 Percent	'86 sales	'82 sales	Profit range*		No. of employees		Date
411.	**Rod Thomas Enterprises** St. Louis, MO Home-improvement contracting	623%	$5,074	$702	C	F	33	4	1972
412.	**Dupey Management** (323) Irving, TX Retails arts & crafts	622	78,980	10,935	D	D	580	50	1977
413.	**Tom Garter Spas** Grand Rapids, MI Sells & svcs. spas	620	857	119	D	D	10	3	1982
414.	**Xscribe** (135) San Diego, CA* Mfrs. computer-aided transcription equipment	620	29,817	4,141	D	C	263	168	1978
415.	**Forte Industrial Equip. Syst.** (341) Cincinnati, OH Distr. automated materials-handling systs.	619	2,630	366	B	D	11	2	1980
416.	**Professional Business Schools** St. Louis, MO Operates vocational school	618	1,787	249	B	C	60	11	1977
417.	**Temporary Solutions** (386) Manassas, VA Provides temporary-help svcs.	615	3,663	512	D	D	18	5	1980
418.	**Maxima** (397) Rockville, MD Provides integrated technology-information svcs.	614	36,313	5,088	E	D	984	150	1978
419.	**Digital Analysis** Reston, VA Computer systs. engineering	614	1,834	257	D	A	35	4	1981
420.	**Staubach Company** (332) Dallas, TX Sells commercial & investment real estate	612	10,494	1,474	B	B	110	25	1977
421.	**Goodtime Appliance & TV Rental** Columbus, GA Rent-to-own home products	611	1,834	258	F	D	30	10	1982
422.	**Preferred Properties** Center Harbor, NH Provides real-estate brokerage svcs.	609	1,417	200	D	F	20	9	1967
423.	**Properties of America** (484) Williamstown, MA Sells real estate	608	9,820	1,387	C	D	70	15	1974
424.	**Phoenix Microsystems** (239) Huntsville, AL Mfrs. telecommunications testing equipment	607	8,672	1,227	C	C	105	10	1978
425.	**David Langer** Los Angeles, CA Distr. semiconductors & computer peripherals	604	5,629	800	D	D	7	6	1968
426.	**ERM Group** West Chester, PA Provides environmental engineering & consulting svcs.	603	36,229	5,156	C	D	275	56	1977
427.	**RAM Graphics** (338) Alexandria, IN Distr. shirts & trophies	603	5,775	822	D	B	95	15	1976
428.	**Forest Home Systems** Selinsgrove, PA Building developer	600	9,325	1,332	D	C	30	18	1977
429.	**Electrical South** (334) Greensboro, NC Mfrs. industrial electronic controls	598	4,727	677	D	D	75	16	1977
430.	**Omniform** Baltimore, MD Distr. business forms	598	1,152	165	D	F	5	3	1981
431.	**Pioneer/Eclipse** (166) Sparta, NC Mfrs. industrial cleaning equipment	596	16,000	2,300	D	C	88	33	1978
432.	**AC3** (113) Birmingham, AL Retails computers	595	16,882	2,430	D	D	48	8	1980
433.	**Omega** (402) Concord, CA Designs & installs security systs.	594	4,178	602	F	D	35	20	1973
434.	**Gorin's Homemade Ice Cream** Avondale Estates, GA Mfrs. ice cream	593	1,976	285	D	C	24	6	1981
435.	**Analytical Technologies** Birmingham, MI Provides computer programming & consulting svcs.	592	5,288	764	D	D	102	17	1980
436.	**Heritage Capital** Dallas, TX Sells rare coins	538	48,021	6,984	D	F	61	27	1972
437.	**Incepts** Dallas, TX Provides computer software consulting svcs.	585	8,013	1,169	E	D	150	17	1979
438.	**Just Bikinis** Costa Mesa, CA Mkts. women's swimsuits & sportswear	585	1,335	195	C	F	25	4	1979
439.	**Peter Chud** Philadelphia, PA Distr. gold jewelry	583	2,016	295	D	D	9	1	1981
440.	**Star Nail Products** (266) Burbank, CA Mfrs. acrylic fingernails & cosmetics	583	3,708	543	C	C	38	3	1981
441.	**Landscapes Unlimited** (473) Lincoln, NE Constructs golf courses	582	5,258	771	C	D	12	5	1976
442.	**C & C Glass** Philadelphia, PA Distr. glass & mirror products	581	3,686	541	D	D	40	15	1975
443.	**Smart** Torrance, CA Provides hospital svcs.	581	7,966	1,170	C	D	450	200	1976
444.	**Clark-White & Associates** Spokane, WA Advertising agency	579	4,931	726	D	F	27	7	1980
445.	**Saftronics** Fort Myers, FL Mfrs. industrial controls for electric motors	576	7,540	1,116	C	F	36	4	1982

[illegible]

	Company (1986 rank) Business description	1982–86 Percent	'86 sales	'82 sales	Profit ranges*		No. of employees		Date founded
446.	**Minors Lawn Care** Fort Worth, TX Provides landscape-mgmt. svcs.	572%	$1,405	$209	B	C	85	11	1980
447.	**Suburban Landscape** (312) Davenport, IA Provides landscape architecture & contracting svcs.	571	2,236	333	D	D	83	18	1981
448.	**TRICOM** (41) West Hempstead, NY Distr. microcomputer hardware	568	11,328	1,697	D	D	26	5	1981
449.	**CIT Construction Inc. of Texas** (286) Stafford, TX General contractor	567	10,000	1,500	B	B	30	10	1980
450.	**Hartley Courseware** (82) Dimondale, MI Mfrs. computer software	566	2,939	441	A	B	20	3	1981
451.	**Din & Pangrazio** Chicago, IL Marketing & communications	564	1,149	173	E	D	16	4	1978
452.	**Perry Morris** (104) Newport Beach, CA Finances new & used equipment	564	6,877	1,036	B	C	55	6	1981
453.	**Comtech Services** Lakewood, CO Provides technical writing consulting svcs.	563	796	120	B	F	13	6	1980
454.	**Markit Productions** Clayton, MO Provides typesetting svcs.	563	1,658	250	D	D	45	5	1982
455.	**Publications & Communications** (422) Austin, TX Publishes computer trade journals	562	5,060	764	A	A	42	8	1979
456.	**Pizza People** Marietta, OH Domino's Pizza franchisee	562	14,358	2,168	D	D	700	200	1972
457.	**Respironics** Monroeville, PA Mfrs. & mkts. medical products	562	6,808	1,028	C	F	225	30	1976
458.	**Fantastic Sam's International** Memphis, TN Franchises hair-care salons	562	11,763	1,778	D	C	45	22	1974
459.	**Cejka** (285) St. Louis, MO Provides executive-search svcs.	561	2,116	320	B	D	20	5	1981
460.	**Quality Temp** Bloomington, MN Provides temporary-help svcs.	559	5,618	852	D	D	14	4	1980
461.	**Temp Force** Atlanta, GA Provides temporary-help svcs.	559	16,725	2,538	D	D	74	28	1976
462.	**Setton's International Foods** Plainview, NY Imports & distr. fruits & nuts	558	22,110	3,359	C	D	42	12	1971
463.	**Seatec** Warrior, AL Provides temporary-help svcs.	558	1,440	219	D	E	4	2	1977
464.	**Technical Resources** Rockville, MD Provides environmental & health svcs.	556	5,138	783	D	D	102	18	1979
465.	**Fluorescent Maintenance Service** Brooksville, FL Maintains fluorescent lighting systs.	555	1,186	181	D	F	36	8	1970
466.	**MidAmerica Design Service** Fort Wayne, IN Provides contract engineering svcs.	555	5,399	824	D	D	225	45	1979
467.	**Commonwealth Equity Services** (205) Newton, MA Provides investment brokerage svcs.	555	6,096	931	D	D	200	130	1979
468.	**MMS International** (307) Redwood City, CA Provides on-line market analysis	553	10,897	1,669	A	A	130	35	1974
469.	**K. L. C.** (393) West Hartford, CT Leases industrial equipment	552	2,268	348	A	B	10	4	1972
470.	**Mona, Meyer & McGrath** Bloomington, MN Public-relations firm	551	1,628	250	D	F	22	5	1981
471.	**Local Data** (459) Torrance, CA Mfrs. networking hardware	551	12,252	1,882	D	C	130	19	1977
472.	**Life Design Systems** Carrollton, TX Mfrs. disposable medical devices	550	4,226	650	C	D	130	29	1976
473.	**Admax** (355) Fort Lauderdale, FL Publishes "for sale by owner" databases	549	2,720	419	C	D	84	10	1978
474.	**Skoda, Minotti, Reeves** Mayfield Village, OH Provides accounting svcs.	547	873	135	D	D	12	5	1980
475.	**Bassman Vending** Waukee, IA Sells vending machine foods	547	1,112	172	D	D	8	2	1980
476.	**Interior Surface** Lincoln, NE Installs & refinishes commercial flooring	545	1,549	240	D	F	3	1	1982
477.	**Dental Dynamics** Virginia Beach, VA Dental mgmt. & consulting	544	734	114	A	D	6	2	1979
478.	**Champion Awards** (108) Memphis, TN Sells printed apparel & awards	544	4,011	623	D	B	50	10	1970
479.	**Altex Electronics** San Antonio, TX Sells electronic components & computers	543	3,916	609	D	C	14	4	1980
480.	**American Systems Engineering** Virginia Beach, VA Provides engineering & technical consulting svcs.	539	17,253	2,698	D	C	375	66	1981

[illegible]

#465 FLUORESCENT MAINTENANCE SERVICE INC. BROOKSVILLE, FLA.

GERRY ZECK

Jimmy and Margaret Williams

Don't tell Jimmy Williams that his future looks bright—it's a really tired joke to a guy who changes light bulbs for a living. And don't ask him how it is that he married the boss's wife. "It always sounds so bad," he laments.

The facts are that Fluorescent Maintenance Service is a company that both designs lighting plans and sends crews out to systematically clean and replace the bulbs. When founder Rex Knowles died in 1980, the company was left to drift for several years without any senior management. Williams, a former employee, was finally recruited to return to help Margaret Knowles "clean up the mess," and along the way they fell in love and got married. He is the president, she the vice-president, with 76% of the equity.

As for the company's turnaround, Williams attributes it mostly to his own plan of linking its fee directly to a client's energy savings. And the savings, it turns out, are considerable. Williams claims companies can shave as much as 50% off their electric lighting bills from installation of more energy-efficient lighting units and regular washing of bulbs and fixtures.

#490 MERRY MAIDS INC. OMAHA

merry
maids

JOHN NOLLENDORFS/PICTURE GROUP

Dallen Peterson

INC. readers will remember that, back in June, we profiled the rise and fall of Carol Brothers and her ill-fated cleaning service franchise, Pop-Ins. Now, here's one that did it right. Dallen Peterson started Merry Maids in 1980 and today has the largest house-cleaning operation in the country. Like Brothers, Peterson says he started with no previous experience in franchising, coming out of a long career in corporate management. But unlike Brothers, who put most of her energy into promotion and marketing, Peterson concentrated on extensive training and reliable suppport for the 415 franchises now located in 44 states.

481.	**Computer Comps. Int'l** (106) S. San Francisco, CA Distr. abrasive materials	539%	$3,764	$589	D	D	5	3	1980
482.	**Placers** (404) Wilmington, DE Provides employee-search & temporary-help svcs.	539	5,935	929	D	D	33	12	1972
483.	**San Diego Design** (77) Santee, CA Mfrs. home-entertainment centers	539	12,074	1,890	D	C	239	57	1979
484.	**Dencom Systems** (458) Los Angeles, CA Svcs. & installs telephone systs.	537	1,198	188	B	C	11	4	1981
485.	**John Yantis** (392) San Antonio, TX Provides highway & utility construction svcs.	537	14,451	2,269	C	C	120	34	1965
486.	**Interior Services** Cincinnati, OH Supplies office furnishings	537	1,[illegible]76	279	D	D	9	2	1982
487.	**Depot Distributors of New England** Fitchburg, MA Distr. kitchen & bath cabinets	536	22,[illegible]32	3,498	D	D	110	27	1977
488.	**Lombardo Agency** (487) Lancaster, PA General insurance brokerage	536	2,7[illegible]0	439	D	F	7	3	1977
489.	**Sunbelt Transformer** Temple, TX Remfrs., sells, & distr. transformers	535	2,933	462	D	F	27	5	1981
490.	**Merry Maids** Omaha, NE Cleaning svc. franchise	534	3,495	551	D	B	18	8	1980
491.	**Laboratory MicroSystems** Troy, NY Develops & mkts. scientific software	532	853	135	C	E	14	2	1981
492.	**Nanco Environmental Services** Wappingers Falls, NY Environmental analytical lab	531	1,243	197	F	E	45	8	1974
493.	**Barry, Bette & LedDuke** Schenectady, NY Provides construction mgmt. & contracting svcs.	530	67,647	10,741	D	D	776	299	1973
494.	**Pride Cleaners** Leawood, KS Dry-cleaning & laundry facilities	529	6,265	996	D	F	280	40	1982
495.	**R & H Construction** Portland, OR Commercial building contractor	529	25,757	4,096	D	D	120	35	1980
496.	**Sage Federal Systems** (462) Rockville, MD Provides computer programming svcs.	528	22,223	3,541	D	D	92	60	1974
497.	**Fox-Huber** Richmond, VA Provides temporary-help svcs.	527	6,454	1,029	D	D	20	10	1978
498.	**Heurikon** (242) Madison, WI Mfrs. microcomputer boards & systs.	527	10,471	1,670	D	C	99	37	1972
499.	**Ford's Chemical & Service** (447) Pasadena, TX Mfrs. pesticides	527	14,042	2,240	D	D	52	35	1972
500.	**PhoneAmerica** (165) Malverne, PA Provides telephone-systs. sales & svcs.	526	1,853	296	D	F	30	5	1981

HOW THE INC. 500 WERE SELECTED

DILIP CHAUHAN

Deborah Weeks

You might say that Deborah Weeks is the 501st member of the INC. 500. By the time December rolls around, she certainly feels like one. Her annual checklist is a long one: maintain individual files on each of the thousands of companies that apply; enter final data on each applicant on the research department computer; calculate rankings and determine breakdowns by industry, sector, and state; check, recheck, and re-recheck the final list. Oh, and most important: humor the INC. 500 senior editor.

For Weeks to qualify a company for the 1987 INC. 500, a company must have been independent and privately held on August 1, 1987, when applications were due. The rankings are based on the percentage increase in sales during a five-year period. During the base year (fiscal 1982), sales must have been between $100,000 and $25 million. And during the fifth year (1986), sales must have been greater than the year before.

Information on each application was verified by phone both with company officials and with their accountants. The checking process is something of a painstaking task that falls mainly to our summer interns. We remember, in particular, the dietary habits of interns Angus Macaulay, who ate three bologna sandwiches each day for lunch, and Suelette Daniel-Dreyfus, for whom a typical meal consisted of two doughnuts, a bag of popcorn, and a *diet* Coke. Elizabeth Thompson represented the magazine with distinction in a big summer road race, but less agile Mason O'Neal broke his hand just putting on a pair of roller skates. Karen Novick wins the prize for finding the accountant with the most distinctive name, one Barefoot Bonehead. And on one of her first days, Erin Oatway telephoned another accounting firm and asked to speak with "Mr. Waterhouse"—apparently neither he nor Mr. Price was available.

The INC. 500 is prepared under the direction of special projects editor Sara Baer-Sinnott. She also had help from Robyn Campbell, Brad Drury, Elizabeth Scaccia, and Kathryn Thibodeau. Researcher Leslie Brokaw authored the brief profiles that appear among the listings.

The information published here is the only material INC. will make available.

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by
Harry Benson

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LETTERS

make: abandoning your strength to compete from a weak position against someone else's strength!

David F. Ramacitti
Marketing Consultant
David F. Ramacitti & Associates
Davenport, Iowa

WHAT MCDONALD'S MEANS

You were right on target to include John F. Love's *McDonald's: Behind the Arches* in Required Reading ("Hamburger Heaven," September). At Ugly Duckling Rent-a-Car, it is not just required reading—it's our management textbook. With thousands of franchisors already in business and the role of franchising predicted to reach 50% of the service economy by the year 2000, every top manager is given a personal copy with the warning "Questions will be asked later."

Lest an enterprising entrepreneur with a unique idea get illusions of becoming a multimillionaire from franchise royalties, consider the dilemma of Ray Kroc and others.

How do you sell and service enough fairly priced franchises to enough people fast enough to generate initial cash each month so that your royalty and initial fees will not get eaten up trying to cover operating expenses?

The franchise is probably the most effective tool invented for a low-capitalized business to expand and outrun wealthier competitors. However, the greatest danger and the most likely condition facing any fast-growing business is negative cash flow. Love's interesting explanation of how Kroc solved this problem makes it truly required reading.

Thomas S. Duck Sr.
President
Ugly Duckling Rent-a-Car Systems Inc.
Tucson

BANKERS AND RISK

It may be tempting to dismiss bankers as irresponsible to borrowers in refusing to accept risk ("Banking: Playing Hard to Get," Hands On, September), and to view the banker as an adversary who must be manipulated.

But I find much more merit in the article "How I Learned to Stop Worrying and Love Negotiating" (Executive Forum) in the same issue, in which you suggest that a person should seek to understand the needs of the other party in any transaction in order to maximize the potential of any relationship.

Banks appear to be risk adverse because they face the possibility of losing all their loaned funds while having a potential gain of approximately 1% to 2% (net return on assets employed). As any intelligent investor would do, bankers seek to keep the risk appropriate to their reward by reducing the uncertainty of repayment. Often, this uncertainty can be reduced by nothing more than a better understanding of the borrower's ability to meet the challenges of the marketplace and business cycle.

This is a complex process involving human emotion, therefore it is imperative that relationships be built on trust, patience, and the commitment of each party to try its best to understand and accommodate the goals of the other. If, indeed, the banker is not willing to uphold his or her end of the bargain, then that banker is not worthy of the effort of a psychological exercise and deserves to be abandoned in favor of the competition.

Thomas M. Nunnally
Commercial Loan Officer
First Seneca Bank
Pittsburgh

KEEPING FAITH

I agree with the point made in "Annals of Venture Capital" (Insider, September) that "Venture capital firms aren't structured to deal with their own failures. They'd rather place $10 million in new capital than spend a year fixing an old $2-million investment." It's refreshing to see the emergence of companies specifically targeting turnaround opportunities. Too often we see last year's rising star that needs nurturing passed over in favor of a fresh new investment.

Richard H. Woodhull
Principal
Sales Management Services
Washington Crossing, Pa.

CORRECTION

Last month, five companies were mistakenly disqualified from the INC. 500 list. The companies and their five-year growth rates are listed below.

☐ Genesis Travel Group, Atlanta, GA; provides travel services, 3,415%

☐ Security & Safety Consultants, Denton, TX; provides private security services, 753%

☐ M. F. Smith & Associates, Bernardsville, NJ; provides business, management, and systems consulting services, 573%

☐ Tollman-Hundley Hotels, New York, NY; owns and operates hotels, 557%

☐ TechLaw, Reston, VA; provides environmental consulting and litigation support services, 554%

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THE TRUTH ABOUT START-UPS

From cradle to grave, here are the facts about which businesses are most often started, survive, and prosper

BY DAVID L. BIRCH

So you want to start a company. (Or, if you already have, perhaps you want to start *another* one.) You are not alone.

The latest figures suggest that Americans this year will start about 700,000 new corporations, 100,000 new partnerships, and 500,000 new sole proprietorships—about 1.3 million new enterprises in all. In 1950, by comparison, there were only 90,000 new incorporations, very few new partnerships, and many fewer workers choosing to become self-employed.

That today there are so many more would-be company builders, however, doesn't mean it is any easier. If you are among them, you no doubt wonder what you could do (or where you should go) to maximize your chances for success. I get questions all the time from people just like you, particularly since at Cognetics I'm in the midst of starting a company myself.

Unfortunately, I can't help you prepare psychologically for the long hours, the endless frustrations, the constant ups and downs, the demands for patience and persistence, the desperate need to plan when there is no time for planning, and so forth.

But I *can* give you some facts about 984,000 companies in our Cognetics database that were started between 1982 and 1987 and made it through to 1987, and about the experiences of another 512,000 young companies that were started between 1978 and 1982 and tried to survive and prosper during the 1982–1987 period. Such facts as: what kinds of businesses are started most often, which ones have the greatest chance of surviving, and which ones have the greatest odds of growing significantly. I can also tell you which places tend to have the highest start-up rates, and which places tend to support growth in young companies.

Keep in mind while reading further that by each measure we ranked 236 distinct industries (the total number of industries that had at least 300 start-ups nationwide from 1978 to 1982).

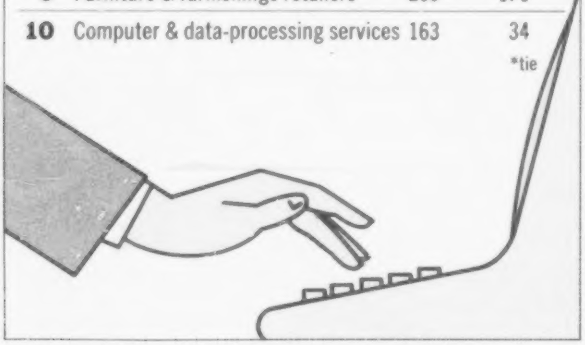
It is no surprise which businesses are most frequently started (see figure 1). Bars, small stores, and repair shops always have been common avenues for entrepreneurship. The only surprise is computer and data-processing services—an impressive newcomer at 10th out of 236. Note carefully, however, that the survival and growth rankings of the most commonly started businesses are not very high. The old adage that "Fools rush in where angels fear to tread" seems to apply to starting businesses.

Let's assume for a minute that survival,

FIGURE **1** MOST FREQUENTLY STARTED BUSINESSES

Rank	Type of industry	Survival rank	Growth rank
1	Misc. business services	132	103
2	Eating & drinking places	161	162
3	Misc. shopping goods	159	206
4	Automotive repair shops	78	210
5	Residential construction	141	171*
6	Machinery & equipment wholesalers	138	105
7	Real-estate operators	38	198
8	Misc. retail stores	100	169
9	Furniture & furnishings retailers	206	171*
10	Computer & data-processing services	163	34

*tie

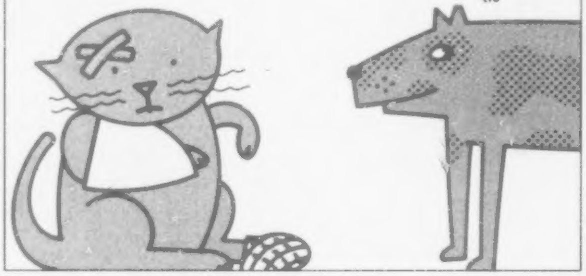


The businesses that people love to start don't score very well on survival or growth. (Total field for rankings is 236 businesses.)

FIGURE **2** BUSINESSES MOST LIKELY TO SURVIVE

Rank	Type of industry	Start-up rank	Growth rank
1	Veterinary services	125	195
2	Funeral services	158	224
3	Dentists' offices	108	171
4	Commercial savings banks	93	1
5	Hotels & motels	27	160
6	Campground & trailer parks	166	202
7	Physicians' offices	35	166
8	Barbershops	151	221*
9	Bowling & billiards places	118	186
10	Cash grain crops	197	221*

*tie



Most of the businesses promising security require specialized advanced training—a formidable barrier to entry.

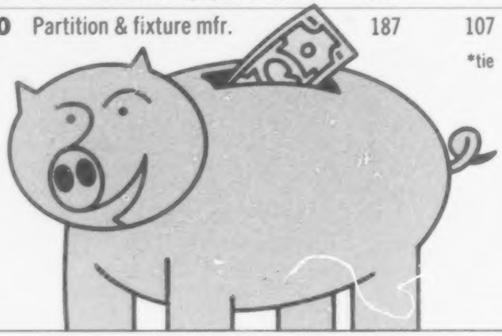
NIGEL HOLMES

FIGURE 3

BUSINESSES MOST LIKELY TO GROW SIGNIFICANTLY

Rank	Type of industry	Start-up rank	Survival rank
1	Commercial savings banks	93	4
2	Electronic component mfr.	102	132*
3	Paperboard container mfr.	225	72
4	Computer & office machine mfr.	142	194
5	Misc. paper product mfr.	191	68
6	Misc. plastic product mfr.	84	132*
7	Basic steel mfr.	215	163
8	Pharmaceutical mfr.	220	172
9	Communication equipment mfr.	139	192
10	Partition & fixture mfr.	187	107

*tie



Contrary to the 'rusting of America' myth, manufacturing businesses are the most frequent high fliers.

FIGURE 4

START-UP HOT SPOTS

Places with highest start-up frequency	Places where start-ups have greatest chance of growth
1 Austin	**1** Manchester-Nashua, N.H.
2 Dallas	**2** Raleigh-Durham, N.C.
3 Huntsville, Ala.	**3** Nashville
4 Orlando	**4** Boston
5 El Paso	**5** Washington, D.C.
6 Atlanta	**6** S. Bend-Benton Harbor, Ind.
7 Nashville	**7** Atlanta
8 San Antonio	**8** Fort Wayne, Ind.
9 Charleston, S.C.	**9** Orlando
10 Tampa-St. Petersburg	**10** Austin

Where businesses start up often and grow fast: Austin, Orlando, Atlanta, and Nashville make both lists.

not spectacular growth, is your main business goal. You are tired of working for someone else and you would like to start a business that is likely to be around five years from now—that is, you want to worry as little as possible about failure, and focus instead on leading a comfortable, stress-free life. Become a vet—not a retired soldier but a veterinarian. Figure 2 shows that many of the most secure businesses are those that require advanced training to start—training that serves as an effective barrier to entry. The businesses of vets, dentists, and doctors are good examples.

Of course, degrees and training may buy you security and protection from other entrants (most high-survival companies rank low in start-up frequency), but, with the recent exception of savings banks, they do not tend to produce much growth. The average growth rankings for secure businesses are very poor.

If you want to be not only independent but rich, you must go after growth. Contrary to what you may think about the "rusting of America," 9 out of 10 of the industries with the highest odds of significant growth are in manufacturing (figure 3). But as you can also see, these are not the easiest businesses to get into—they have low start-up rankings. Nor would they provide restful, stress-free work environments—their survival rankings are not so good.

By this point you may be thinking that selecting a business to start is less simple than you had hoped. The businesses that seem easiest to start tend to grow little—or even to close. Those that easily survive do so because they are difficult businesses to get into. And the ones you can get rich at are hard to start and hard to keep going.

We took one last cut at the data to see if there were any reasonably easy ways out, by which we mean: are there businesses that rank in the top 50 in start-up frequency *and* survival rate *and* growth likelihood? The answer is yes. There's *one*—engineering and architectural services. So if you are good at designing buildings and bridges, you have much going for you. Otherwise, you will have to struggle.

Summing this up another way, you have to think carefully about what kind of business you want to start. None is likely to provide you with easy entry, security, and reward. You'll be forced to choose those characteristics that matter most to you, and then brave the absence of the others.

One thing you *can* do when starting your company is to locate in a place that offers a lot of support. As I mentioned earlier, starting a business is psychologically difficult. It helps to be where bankers, accountants, and financiers are used to working with start-ups, and where lots of other start-ups are around to remind you that you're not crazy.

We've observed in our data that some places are indeed much more likely than others to support the start-up and growth of young businesses—by a factor of 8 or 10 over less hospitable locales. Figure 4 ranks places in terms of start-up rate and in terms of the odds that young companies there will grow significantly. Despite all its problems (or perhaps because of them) Texas is still a major hotbed for young growing companies, although it is certainly not alone. Conversely, our data has shown that you should think twice before starting up in many of the country's rural areas. They may be peaceful, but you would be—for the most part—on your own. As we'll see in next month's column, you can do it, but it isn't easy. The figures suggest that loneliness works against, rather than on behalf of, success. □

David L. Birch is president of Cognetics Inc. and director of MIT's Program on Neighborhood and Regional Change.

TO CATCH A THIEF

Don't fool yourself—small companies are great places for embezzlers

BY STEPHEN NELSON

Few things are more discouraging to a company owner than discovering that somebody you've trusted has had his hand in the till. Yet when you start swapping embezzlement stories, as I have with other controllers and chief financial officers, you begin to realize that there are limitless opportunities in most small companies for people to steal. Often there are few procedures and controls in place—and for a reason. If you wanted to work in a big-corporation bureaucracy, you probably wouldn't have started your own company in the first place. Still, having no controls can be very costly. The fact is, embezzlers are drawn to a few weak spots that many small companies share. By concentrating on these, you can go a long way toward finding and preventing embezzlement in your company.

When managers are tempted to steal, there's often a shadowy accomplice: a messy set of books. I know of a controller in a manufacturing company, for example, who actually had the accounting records randomly stacked in two-foot-high piles around his office. He was the only person who could even hope to find anything there. One day when the president of the company was looking for something in one of the stacks, he came upon some suspicious-looking records quite by accident. When the dust settled, it turned out that the controller had given himself $40,000 worth of raises and bonuses over the course of the year.

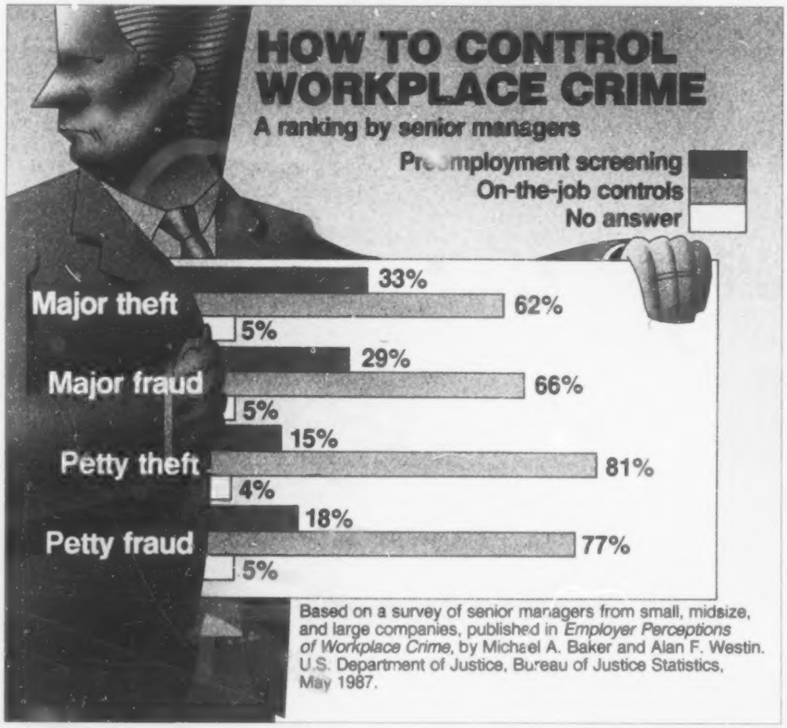
Not infrequently—and often appropriately—"clean books" as a business goal become subordinate to more urgent concerns. But your books document the financial transactions of the business, and that includes criminal transactions. And, as with any criminal, the embezzler minimizes the chances of being caught if he or she destroys or hides the evidence, which is exactly what sloppy bookkeeping can accomplish.

Most embezzlers want to, and do, work alone. Someone, for example, who is completely responsible for every step of the weekly payroll can easily add imaginary employees to the payroll, increase wages, and tinker with payroll deductions for employee benefits and taxes. Payroll, accounts payable, accounts receivable, inventory, and investment portfolios are all wonderful targets for embezzlers. It follows, then, that if you segregate duties in some key areas so that what one employee is doing, another is checking, you'll probably keep temptation at bay—it's unlikely that a potential thief could successfully enlist another employee as an accomplice. So, as a general rule, try to separate the bookkeeping for an asset or event from the physical custody of the asset or management of the event.

You'll also reduce your chances of hiring an embezzler if you closely check the backgrounds of candidates for accounting and managerial positions. In my experience, someone who has embezzled once is likely to be a repeat offender. And why not? Embezzlers are rarely prosecuted—company owners are usually too embarrassed to press charges. Some say you'll never turn up something as dirty as embezzlement with reference and background checks, but I don't buy that. Usually a lot of people know about the problem when it's being investigated—and when the embezzler is forced to leave a company. I'm thinking of the owner of a closely held research-and-development company who, in the process of dealing with an embezzler, discussed the problem with his law and accounting firms, corporate officers and directors, the bank, the investment bankers, and the investors. Plus everyone in the embezzler's department knew why she had been fired.

Now it's true that you probably couldn't make one phone call and discover that this person had been fired for embezzling. But the world's an awfully small place. Sordid news makes for great gossip, and sooner or later the news gets around no matter how quiet people try to keep it. You just have to dig a little harder than usual to uncover it.

If you follow these suggestions, it won't be easy for someone to pull a simple scam in your company. But to keep a check on exceptionally clever thieves, there's one more step you should take. Require your employees to take long enough vacations so that somebody else has to take over their responsibilities. Many of the embezzlement schemes are so fragile they require a lot of day-to-day maintenance, and they'll fall apart without it. A common example is "lapping"— whoever handles



Based on a survey of senior managers from small, midsize, and large companies, published in *Employer Perceptions of Workplace Crime*, by Michael A. Baker and Alan F. Westin. U.S. Department of Justice, Bureau of Justice Statistics, May 1987.

SAM WARD

accounts receivables skims cash off the incoming collections, and uses other collections to cover for it, in essence robbing Peter to pay for Paul.

There's another reason to require employees to take vacations. You may well notice some changes occurring in your cash flow, say, or maybe a cost line item will suddenly drop. The most extreme story I've heard along these lines was about the assistant manager of a barely profitable concessions business in Washington State, who had worked for years without a vacation or break. Then, sadly, he had a heart attack and was out for months. Profits quadrupled. Predictably, the owner took a more than casual interest in the change. He discovered that the assistant manager had several tricks for increasing his own income at the expense of the business: taking a little money out of the cash register, selling some of his own inventory instead of the owner's, and buying supplies from vendors who understood that his palms needed a little grease. The plan was simple, and it was successful for years: a little here, a little there, and never so much from any one place that somebody would notice. Until he was forced to take time off. □

EMBEZZLEMENT CHECK

There are no perfect systems for thwarting an embezzler, but a few simple steps can help

You don't have to develop elaborate systems to find and prevent embezzlement in your company. Most schemes will be exposed if you simply do the following:

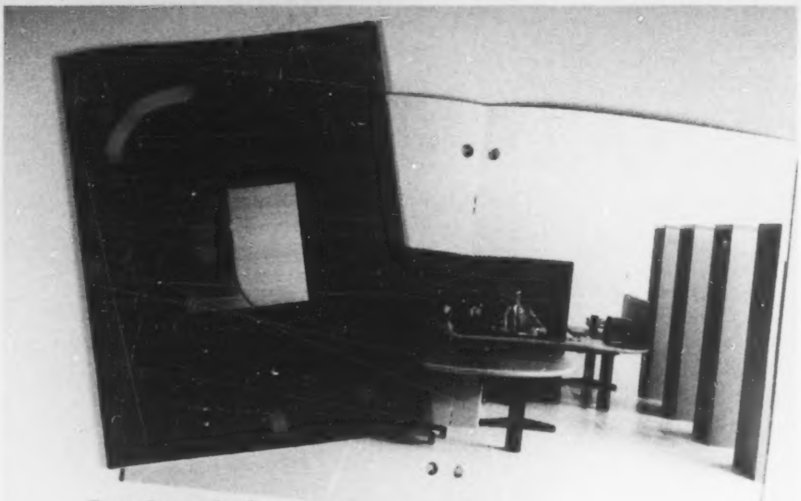
1. Keep complete financial records and books.

2. Be sure the person who is responsible for the bookkeeping for an asset or event is not the same person who has physical custody of the asset or management of the event.

3. Before hiring, check the backgrounds of management and accounting employees thoroughly.

4. Require employees to take vacations.

Stephen Nelson spent three years in the consulting division of Arthur Andersen & Co., a Big Eight accounting firm, and two years as controller, treasurer, and chief financial officer of a venture capital–funded technology firm. Currently he is a certified public accountant with Douglas Pemerl Co., in Seattle.



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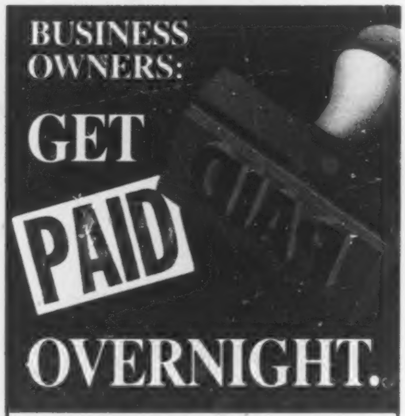

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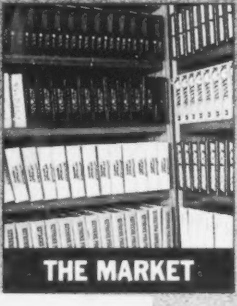
ANATOMY OF A START-UP

THE PRODUCT



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150	1,800
100	1,200
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3,300	39,600
93	1,116

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Worst-Laid Plans

When too many people are bullish, holds one Wall Street bromide, the stock market is headed for a fall. If so, then maybe there was more warning of October's crash than most people think.

DILIP CHAUHAN

LBO specialist Frederick M. Fritz
And what about the bad times?

Starting last spring, observes leveraged buyout specialist Frederick M. Fritz, bullish sentiment had become so pervasive that dealmakers began throwing caution to the winds. "As the market took off, the discipline of recession scenarios crept out of their business plans," notes Fritz, who annually receives some 600 such documents as managing director of BancBoston Capital Inc., the mezzanine-investment arm of Bank of Boston.

"Before that trend set in, a business plan tended to be discounted or discredited if it didn't include a recession scenario as a basic element of conservatism."

Now that Black Monday has sobered LBO packagers along with everyone else, investors are demanding that entrepreneurs take off their rose-colored glasses and again include pullback scenarios. Because the stock market debacle has brought the inevitable recessionary business cycle closer, says Fritz, the presentation should portray a modest two-year downturn beginning by mid-1988. Indeed, he adds, it wouldn't hurt to include a second, worst-case, scenario showing how the company would weather an even more severe recession.

And as far as stock-market theory goes, the gloomier your worst case the better: there's also a saying that when too many people are *bearish,* stocks are heading for a rise. *—Robert A. Mamis*

Sunstroke

Winning the Pentax World Solar Challenge proved a bit of a problem for our boys from John Paul Mitchell Systems Inc. (see "Are We Having Fun Yet?" October 1987). Like the rest of the 25-car field, they were done in Down Under by General Motors Corp.'s Sunraycer entry, an estimated $8-million vehicle that finished nearly three days (and about three years, technologically speaking) ahead of its nearest rival. Still, their enthusiasm remains unflagging.

COURTESY OF GM CORP.

DILIP CHAUHAN

GM's Sunraycer (top); the Mana La
'A taste of things to come.'

"We ran neck and neck with GM for the first six hours," reports John Paul Jones De Joria, chief executive of John Paul Mitchell Systems. "But our car was specifically designed to maximize both wind power and solar power, and the winds forecast for the duration of the race died after day one. We had to run at much lower speeds to conserve battery charge. Then, when the winds returned, the rains came too. Weatherwise, it was a disaster."

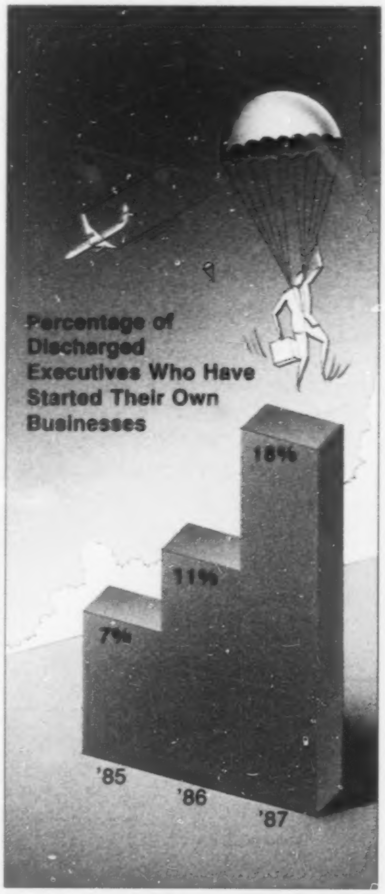
Their car, the Mana La, nevertheless negotiated course speeds of 70 miles per hour and more, and the company hopes to sponsor a domestic competition this spring. Next on the John Paul Mitchell Systems drawing board: a solar street machine for 1988.

"We will stay on top of this technology," vows De Joria, despite the less-than-victorious Australian run. "This race was just a taste of things to come."

—Joseph P. Kahn

Fired Up

More than 1 in 6 discharged managers are starting their own businesses now, compared with only 1 in 14 as recently as 1985, claims a recent survey by Challenger, Gray & Christmas Inc., a Chicago-based international outplacement firm. James E. Challenger, the company's president, blames at least some of the rise on corporate programs designed to promote entrepreneurial attitudes among employees. The experience of feeling that a particular job function, responsibility, or department is all theirs, he says, "has given many people the realization that they can run a company."



DALE GLASGOW

What else provides the entrepreneurial push? Shock, says Challenger. Before dismissal, most executives still believe they are with a "forever company," he says. The emotional shock of finding otherwise is so deep, and breeds such insecurity and instability, that many managers turn to entrepreneurship in order to avoid being fired again.

RFD INC.

Where to go when you want to start a business in a remote location

BY DAVID L. BIRCH

Are you tired of the rat race? Hankering for the pastoral? Ever consider tossing in your urban job and heading for some remote locale to start up your own company and lead a simpler life? Perhaps you have in mind a summer place you once lived in or a resort area you've visited. Or perhaps there's a place you've only dreamed about. Whatever. Maybe this column can help.

With modern telecommunications facilities, far-reaching parcel delivery services, an almost-completed interstate highway system, and a U.S. Post Office that is willing to expand its services if you demonstrate a need for them, the possibilities for growing a successful company in the boondocks are quite real. L. L. Bean, in Freeport, Maine, and Lands' End, in Dodgeville, Wis., are two examples that come to many people's minds. But they represent just one specific type of business (mail order) that flourishes in remote places. Think about all the magazines published within a few miles of Peterborough, N.H. (currently there are more than two dozen), or the numerous free-lance consultants who offer their services around the world. Or consider the countless merchants and innkeepers cashing in on a travel boom being fueled by mobile businesspeople and vacationers alike.

At Cognetics, we decided to hang some real numbers on the company-building activity of those who *have* "gotten away from it all" (or who were never near it all in the first place). To begin, we defined remoteness to mean not just rural, but to be any location at least 60 miles away from the nearest metropolitan area. It turns out there are 53 such areas in the United States, distributed across all regions of the country—from Vermont to Georgia to Texas to northern California. And those places, from 1978 to 1987, gave birth to more than 281,000 businesses.

We know that starting a company is tough anywhere. Last month's column showed that even if you could pick any kind of enterprise to open, none would offer ease of entry *and* security *and* growth. Starting in a remote place is—despite technology's capacity to shrink distances—even tougher. You won't find all the support typically found in a larger metropolitan area; no diversity of accountants, bankers, travel agents, copy shops, computer repair services, and so forth.

Remote start-ups and success stories thus tend to be a little different from the mix found in metropolitan America. Generally, they fall into four groups, tending to be businesses that: 1) satisfy fundamental needs, 2) revolve around natural resources, 3) are needed because of an area's remoteness, or 4) would be practical no matter how remotely situated.

Everyone has to eat, get haircuts, and have cars fixed. People start businesses to

1 BUSINESSES MOST FREQUENTLY STARTED IN REMOTE PLACES

Rank	Type of industry	Survival rank	Growth rank
1	Misc. business services	91	48
2	Eating & drinking places	123	78
3	Misc. shopping goods	119	129
4	Automotive repair shops	63	123
5	Misc. repair shops	52	108
6	Grocery stores	71	77
7	Misc. retail stores	87	116
8	Residential construction	104	100
9	Women's clothing stores	154	112
10	Retail furniture & furnishings	142	105

2 BUSINESSES MOST LIKELY TO SURVIVE IN REMOTE PLACES

Rank	Type of industry	Start-up rank	Growth rank
1	Veterinary services	95	137
2	Legal services	103	100
3	Funeral services	105	126
4	Dentists' offices	153	143
5	Public warehousing	129	64
6	Cash grain crops	112	150
7	Fuel & ice retailers	136	97
8	Hotels & motels	11	72
9	Commercial savings banks	88	1
10	Bowling & billiards places	67	123

NIGEL HOLMES

Many hinterland start-ups try to make it by meeting neighbors' basic needs. (Total field for rankings is 158 businesses.)

The lodgings business is among the easiest to enter and most likely to survive, but hotels and motels don't grow much.

meet these needs in remote places as often as they do in metropolitan areas.

Many remote locations offer great natural resources—farmland, mines, national forests, lakes, oceans—and a particular set of businesses springs up in response: agricultural supply stores, tourist facilities, oil-drilling suppliers, boat builders.

Remoteness *encourages* certain kinds of businesses, such as trucking, telecommunications, air travel, and warehousing. More important, though, it also supports a set of businesses for which distance makes no difference—mail order, for instance, or specialty manufacturing (Ben & Jerry's ice cream, wooden toys).

Figure 1 lists the 10 (out of a field of 158) most commonly started businesses in remote areas from 1982 to 1987. Virtually all of the top-ranked businesses fall into one or more of the four groups just described. Most fit the first category—fundamental needs. But consulting (in miscellaneous business services) and mail order (in miscellaneous shopping goods) are right up there at the top. Slightly farther down on the list are tourist facilities, trucking, oil and gas field services, and computer and data-processing services—each representing one or another of the general classes of businesses that often tend to crop up away from it all.

Of course, as we learned last month, frequency and ease of entry do not guarantee success. For each of the 158 types of businesses with 100 or more start-ups from 1978 to 1982, we computed their odds of survival and their odds of achieving significant growth. Figure 1 shows how the most frequently started businesses fare by these measures (on a scale of 1 to 158). It's not too encouraging.

So let's look at the survival rankings, instead. After all, you didn't head for the hills just to be like everyone else. You went there to relax a little more, and worry a little less about getting by. Unfortunately, as figure 2 demonstrates, the businesses most likely to survive are tough to get into, or may not be your natural first choice. Not everyone, for example, dreams of becoming a funeral director. And it isn't easy to become a veterinarian, lawyer, or dentist—as their start-up frequency rankings suggest. Hotels and motels, on the other hand, look like a pretty good bet for getting started and staying alive—but not for growing very much.

If it is growth you're after, then make something. Figure 3 shows that 8 of the 10 fastest-growing kinds of businesses are in manufacturing. Manufacturing facilities are not all that easy to start, however—they require relatively large amounts of capital. But several types survive quite well once they get going.

Now for the brass-ring question: are there any kinds of remotely based businesses that look good by all three measures? The answer, sadly, is not many. Only 3 rank in the top 50 for frequency of entry, survival, and growth. They are: manufacturing of miscellaneous machinery, electrical contracting, and petroleum wholesaling.

If none of these is your thing, you are going to have to choose among ease of entry, security, and growth.

Would you like some entrepreneurial companionship in your bucolic new home? The remote places that gave birth to the most new businesses between 1982 and 1987 are as diverse as rural Georgia and south central Wisconsin (see figure 4). If growth is your goal, then the state of Vermont—at least statistically—offers the best environment in which to grow a new business.

It's safe to say, I think, that remoteness isn't nearly the disadvantage it was as recently as 10 or 15 years ago. It still makes company building tougher, but literally hundreds of thousands of people *are* starting successful businesses in out-of-the-way places. It can be done. □

David L. Birch is president of Cognetics Inc. and director of MIT's Program on Neighborhood and Regional Change.

3 BUSINESSES MOST LIKELY TO GROW SIGNIFICANTLY IN REMOTE PLACES

Rank	Type of industry	Start-up rank	Survival rank
1	Commercial savings banks	88	9
2	Misc. plastic products mfr.	94	127
3	Floor coverings mfr.	146	152
4	Metalworking machinery mfr.	111	11
5	Nursing & personal care facilities	85	14
6	Misc. fabricated metals mfr.	152	47
7	Motor vehicles & parts mfr.	134	146
8	Misc. wood products mfr.	124	43
9	Mill work & structural material mfr.	82	131
10	Ship & boat mfr.	157	148

4 RURAL START-UP HOT SPOTS

Remote places with highest start-up frequency	Remote places where start-ups have greatest chance of growth
1 Rural Georgia	**1** Vermont
2 Northwestern rural Ohio	**2** North Georgia mountains
3 South central Wisconsin	**3** Eastern Maryland
4 North central Texas	**4** Rural Maine
5 Southern rural Missouri	**5** Alaska

Boondocks banking: commercial banks aren't started very often, but they usually survive—and they almost always grow.

The most fertile start-up seedbed is in rural Georgia, but Vermont is where new businesses are most likely to grow.

TAXES

An Owner's Manual

BY IRVING L. BLACKMAN

Costs of business searches

When you're in the market for a new business, you can spend thousands of dollars running ads, traveling around the country to look at companies, and hiring auditors to evaluate several prospects. Yet if your search is unsuccessful, the Internal Revenue Service says that you cannot deduct expenses for a general search or a preliminary investigation.

Say that you do find the company of your dreams, and you incur further costs, such as legal fees—and then the deal falls through. You can deduct the legal and other expenses that are specific to the negotiation, but you still get no deduction for those general search expenses.

But there is a way to assure a 100% deduction for all expenses. The answer is to incorporate. Then buy stock from your new corporation equal to the amount of the anticipated search; have the corporation, instead of you personally, incur the expenses of looking for the new business. If you find what you want and buy the operating assets, you have a corporation set up and ready to go. If you don't find what you want, you will be able to get a personal deduction for the expenses incurred by the corporation. How? Liquidate the corporation. A little-known section of the Internal Revenue Code, Section 1244, allows you an ordinary deduction, rather than a capital loss, on your stock loss in amounts up to $50,000 for a single taxpayer or $100,000 for a husband and wife filing a joint return. (For another use of 1244 stock, see "Attracting Capital," below.) ☐

Attracting capital

If you're looking for ways to entice friends and relatives to help capitalize your small company, you should know about Section 1244 of the Internal Revenue Code. The idea behind the legislation is to give a kind of investment insurance to anyone investing in a small, incorporated business.

The way it works is this: an investor who buys Section 1244 stock gets the best of all tax breaks: capital gains, which can be offset against capital losses if he sells the stock at a profit; and ordinary loss treatment if he sells at a loss or if the business fails and the stock becomes worthless. Ordinary losses are limited to $50,000 for single taxpayers and $100,000 for married taxpayers filing a joint return. But compare those numbers with the tax law's capital losses, which can be deducted only at the rate of $3,000 a year.

If you're incorporated, you can issue Section 1244 stock, provided the following four requirements are met at the time the stock is issued:

☐ Your company has received 50% of its gross receipts from operations—as opposed to passive income such as interest and dividends—for as long as it has been in business over the past five years.

☐ You issue the stock for cash or property, not stock or securities.

☐ Your company has received $1 million or less for its stock, including the Section 1244 stock you're planning to sell.

☐ The stock is newly issued.

You can issue and sell Section 1244 stock to yourself as well as to outside investors. (For another use of 1244 stock, see "Costs of Business Searches," above.) ☐

CORPORATE TAX RETURNS AUDITED IN 1986 (BY SIZE OF ASSETS)

Balance sheet assets	1985 returns filed	Number audited	Percent audited
$0–50,000	803,200	5,988	0.75%
50,000–250,000	865,400	12,733	1.47
250,000–1 million	507,100	7,922	1.56
1 million–5 million	198,700	9,349	4.71
5 million–10 million	28,400	3,639	12.81
10 million–50 million	31,000	7,400	23.87
50 million and more	15,700	9,892	63.00

Source: *Internal Revenue Service Highlights of 1986*, U.S. Government Printing Office, 1987.

If you play by the percentages, the smaller your assets, the lower your chances of getting audited by the Internal Revenue Service. But don't overlook the numbers.

Stock transfers

There are any number of ways to transfer stock ownership, but a stock bonus has particularly interesting tax benefits. It's a technique you can use to shift shares of stock from you to your successor—an employed relative, say, or a key employee.

As an example, let's assume that you eventually plan to turn your business over to your daughter, who now works with you. So you give her a bonus in shares of stock—but not so much as to cause an "unreasonable" compensation problem with the IRS.

These are the tax consequences of the tax bonus:

☐ Your employed daughter must pay income tax on the fair market value of the stock she receives.

☐ The corporation can deduct the fair market value of the stock it gives as compensation.

☐ The corporation does not pay income tax on the benefit (the tax deduction) it receives.

This combination is advantageous all around. The corporation gets a full tax deduction for the fair market value of the stock. You've decreased your ownership, and your daughter's share has increased. It is as if you had sold her some of your shares—except the stock bonus is tax free to you. ☐

A quick loan

Certain restrictions go along with an individual retirement account, and one is that you can't borrow from it. You can't even pledge it as collateral for a loan. In either case the amount would be included in your current income, and if you're under 59½ years old, you'd have to pay penalties as well.

But if you need money for only a short period, you can in effect borrow from your IRA.

The law allows you to remove money without triggering current income or penalties if you roll the exact amount removed into another IRA within 60 days. And there you have it: interest-free use of the funds for a short-term need. Still, you can't make a habit of this: you can use the 60-day maneuver only once a year. ☐

Irving L. Blackman, specializing in closely held businesses at Chicago-based Blackman Kallick Bartelstein, certified public accountants, speaks and writes on tax issues.

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Inc.

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THE FASTEST-GROWING CITIES IN AMERICA

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by
Nigel Holmes

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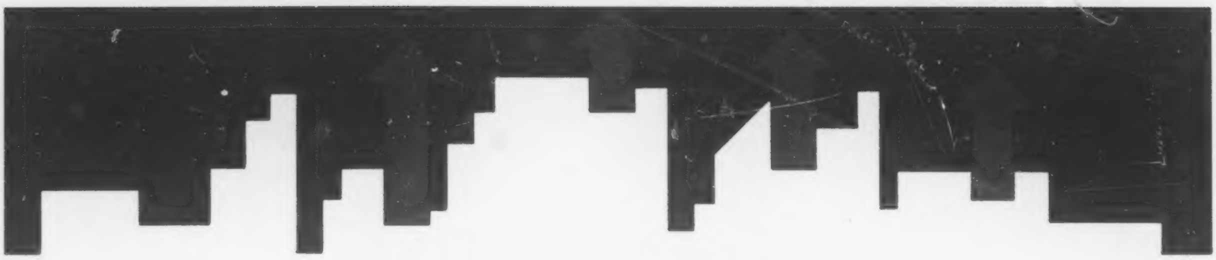

METRO REPORT

HOT SPOTS

INC.'s annual ranking of America's cities

IT WAS THE BIG CONTEST THIS SEASON IN THE ONGOING economic-development sweepstakes. The prize: Sematech, the nation's most advanced computer-chip research facility, operated by a consortium of 14 of the nation's leading chip manufacturers. The stakes: 800 mostly high-paying jobs, the potential for dozens of high-technology spin-offs, and a $250-million annual operating budget. The contestants: 34 states representing more than 100 local communities. The winner: Austin.

METRO LEADERS

Company Start-ups	**Austin**
Job Growth	**Orlando**
Fast-Growth Companies	**Manchester-Nashua, N.H.**

Austin these days has as much going for it as an armadillo in a cactus patch. A state capital. A world-class university. The nation's top microcomputer research facility. Culture. Beauty. And plenty of affordable housing. It all adds up to a penchant for starting and growing companies that puts it on top of INC.'s annual metropolitan ranking for the second year in a row.

Austin today is not quite the boomtown it was before the price of oil dropped and a shakeout rocked Texas high tech—and before overdevelopment put Austin real estate into its current slump. But in spite of these challenges—or as David L. Birch points out on page 80, maybe because of them—Austin has posted a four-year record of economic growth that is still unmatched anywhere in the country.

Not all of urban Texas has fared so well. The cities taken down more than 30 places this year on the INC. metropolitan rankings read like an oil-field Baedeker: Tyler, Amarillo, Houston, Odessa-Midland, and Waco, Tex., with nearby Baton Rouge and Lafayette, La., thrown in for good measure. All of which makes it more impressive still that, in terms of business birthrates, the three top cities in the country are Austin, El Paso, and Dallas-Fort Worth.

Business birthrate is one of the three historical criteria used in the annual INC. metro rankings. The other two are the percentage growth in private employment and the percentage of young companies experiencing high growth. For each city, a relative score for each factor was calculated based on a four-year period, then the three numbers were added together for an overall score. A complete list of the metropolitan areas with this year's and last year's rankings appears on the opposite page.

The 1988 metro rankings show a healthier urban economy than a year ago in all three categories, with a median birthrate of 2.7% and 2.9% of small, young companies experiencing rapid growth. The median percentage of job growth over a four-year period was 15%.

Aside from the oil-patch metropolises, the big losers over the past year include Syracuse, N.Y., New London, Conn., and the small Georgia cities of Columbus and Augusta. Wisconsin's Madison and Green Bay both dropped more than 30 places, even as Milwaukee made gains. Melbourne-Titusville, Fla., heavily dependent on the nation's space-shuttle program, slipped badly, although Huntsville, Ala., headquarters of NASA's George C. Marshall Space Flight Center, climbed from #10 to #7. Colorado Springs, Colo., feeling the shakeout in the oil, mining, and computer industries, dropped from #27 to #63.

Last October, in our annual Report on the States, INC. lavished high praise on the economic-development initiatives of Pennsylvania and Michigan, and this year's Metro Report confirms that positive assessment. Moving up dramatically in the rankings this year were the Michigan cities of Lansing, Flint, and Saginaw-Bay City along with Pennsylvania's Lancaster, York, Harrisburg, Philadelphia, and Johnstown-Altoona. To be sure, none of these industrial outposts has made it yet into the top tier of growing cities, but their movement upward is the latest proof that a Rustbelt revival is underway. So, too, is the continued presence of South Bend and Fort Wayne among the top 50 cities, with the addition this year of Indianapolis, moving up impressively from #71 to #35. Noticeably left out of this positive trend is industrial Illinois, which continues to claim no city in the top half of this

ILLUSTRATION: NIGEL HOLMES

METRO RANKING

1988 Rank/Area/1987 Rank

1. **Austin, TX** (1)
2. **Manchester-Nashua, NH** (8)
3. **Orlando, FL** (2)
4. **Phoenix, AZ** (3)
5. **Atlanta, GA** (9)
6. **Raleigh-Durham, NC** (7)
7. **Huntsville, AL** (10)
8. **Washington, DC** (11)
9. **Dallas-Fort Worth, TX** (4)
10. **San Diego, CA** (13)
11. **Nashville, TN** (15)
12. **Tucson, AZ** (5)
13. **Portsmouth-Dover, NH** (20)
14. **Albuquerque, NM** (12)
15. **Tampa-St. Petersburg, FL** (23)
16. **Pensacola, FL** (31)
17. **Fort Myers, FL** (22)
18. **South Bend, IN** (24)
19. **Charleston, SC** (14)
20. **Norfolk-Portsmouth, VA** (21)
21. **San Antonio, TX** (6)
22. **Jacksonville, FL** (16)
23. **Boston, MA** (25)
24. **Baltimore, MD** (43)
25. **Richmond, VA** (58)
26. **El Paso, TX** (19)
27. **Las Vegas, NV** (47)
28. **Greensboro, NC** (60)
29. **Sarasota, FL** (28)
30. **Memphis, TN** (26)
31. **Columbus, OH** (40)
32. **Charlotte, NC** (66)
33. **Los Angeles, CA** (37)
34. **Minneapolis-St. Paul, MN** (49)
35. **Indianapolis, IN** (71)
36. **Wilmington, DE** (32)
37. **Portland, ME** (76)
38. **Fort Wayne, IN** (34)
39. **Fayetteville, AR** (68)
40. **Seattle, WA** (65)
41. **Miami-Fort Lauderdale, FL** (52)
42. **Tallahassee, FL** (18)
43. **Santa Barbara, CA** (42)
44. **San Francisco, CA** (35)
45. **Columbia, SC** (38)
46. **Sacramento, CA** (33)
47. **Lexington, KY** (56)
48. **Melbourne-Titusville, FL** (17)
49. **Philadelphia, PA** (69)
50. **Detroit, MI** (50)
51. **Grand Rapids, MI** (54)
52. **Denver-Boulder, CO** (29)
53. **Savannah, GA** (39)
54. **Kansas City, MO** (44)
55. **Worcester, MA** (51)
56. **Salt Lake City, UT** (36)
57. **Lancaster, PA** (82)
58. **Bridgeport-Stamford, CT** (46)
59. **Daytona Beach, FL** (62)
60. **Macon, GA** (115)
61. **Cincinnati, OH** (77)
62. **Augusta, GA** (30)
63. **Colorado Springs, CO** (27)
64. **Birmingham, AL** (85)
65. **Knoxville, TN** (86)
66. **Albany, NY** (78)
67. **Lansing, MI** (132)
68. **New Haven, CT** (87)
69. **Lincoln, NE** (57)
70. **Jackson, MS** (99)
71. **Dayton, OH** (105)
72. **Little Rock, AR** (70)
73. **Reno, NV** (91)
74. **Greenville, SC** (92)
75. **Toledo, OH** (80)
76. **Omaha, NE** (84)
77. **Santa Cruz, CA** (61)
78. **Topeka, KS** (103)
79. **New York, NY** (81)
80. **Stockton-Modesto, CA** (83)
81. **Montgomery, AL** (53)
82. **Madison, WI** (48)
83. **Honolulu, HI** (NA)*
84. **St. Louis, MO** (90)
85. **Boise, ID** (64)
86. **Flint, MI** (136)
87. **Portland, OR** (96)
88. **Baton Rouge, LA** (45)
89. **Saginaw-Bay City, MI** (142)
90. **Rochester, NY** (73)
91. **New London, CT** (55)
92. **Houston, TX** (41)
93. **Springfield, MO** (59)
94. **New Bedford, MA** (67)
95. **Chicago, IL** (106)
96. **Hartford, CT** (110)
97. **Roanoke, VA** (101)
98. **Rockford, IL** (94)
99. **Waco, TX** (63)
100. **Louisville, KY** (93)
101. **Monterey, CA** (114)
102. **Wichita, KS** (111)
103. **Providence, RI** (NA)*
104. **York, PA** (127)
105. **Chattanooga, TN** (100)
106. **Cleveland-Akron, OH** (118)
107. **Spokane, WA** (113)
108. **Lakeland, FL** (88)
109. **Milwaukee, WI** (124)
110. **Battle Creek, MI** (107)
111. **Green Bay, WI** (72)
112. **Syracuse, NY** (79)
113. **Harrisburg, PA** (133)
114. **Mobile, AL** (120)
115. **Binghamton, NY** (126)
116. **Springfield, MA** (116)
117. **Cedar Rapids, IA** (145)
118. **Atlantic City, NJ** (97)
119. **Champaign, IL** (131)
120. **Fresno, CA** (134)
121. **Eugene, OR** (137)
122. **Pittsfield, MA** (117)
123. **Bakersfield, CA** (104)
124. **Youngstown, OH** (139)
125. **Tacoma, WA** (130)
126. **Johnstown-Altoona, PA** (146)
127. **Buffalo, NY** (123)
128. **Evansville, IN** (109)
129. **Corpus Christi, TX** (98)
130. **Des Moines, IA** (122)
131. **Pittsburgh, PA** (141)
132. **Brownsville, TX** (102)
133. **Tulsa, OK** (108)
134. **Allentown, PA** (135)
135. **Scranton, PA** (140)
136. **Tyler, TX** (74)
137. **New Orleans, LA** (129)
138. **Erie, PA** (143)
139. **Shreveport, LA** (128)
140. **Columbus, GA** (75)
141. **Johnson City, TN** (148)
142. **Beaumont, TX** (147)
143. **Amarillo, TX** (89)
144. **Lubbock, TX** (112)
145. **Utica-Rome, NY** (138)
146. **Springfield, IL** (149)
147. **Charleston, WV** (150)
148. **Huntington, WV** (152)
149. **Reading, PA** (144)
150. **Davenport, IA** (151)
151. **Oklahoma City, OK** (125)
152. **Canton, OH** (121)
153. **Peoria, IL** (153)
154. **Duluth, MN** (154)
155. **Lafayette, LA** (95)
156. **Odessa-Midland, TX** (119)

*NA: no answer

LANSING, MICHIGAN
An aggressive state-development program and a restructuring of the American auto industry helped make this the 'most improved' metro area.

CHARLOTTE, NORTH CAROLINA
Bank deregulation has helped make this quiet outpost into a financial center for the entire Southeast region.

HOUSTON, TEXAS
The cities slipping badly on this year's ranking read like an oil-field Baedeker, including this world capital of Big Oil, which dropped 50 places.

PHOTOGRAPHS: TOP: DENNIS COX; CENTER: STEVE MURRAY/PICTURESQUE; BOTTOM: STOCKPHOTOS/SAM ZAREMBER

METRO RANKING/THE TOP 25

Rank/Area	Growth In Jobs	Business Birthrate	% of Fast-Growing Companies
1. **Austin, TX**	42.9%	6.8%	4.0%
2. **Manchester-Nashua, NH**	38.9	4.0	5.9
3. **Orlando, FL**	53.5	4.9	4.0
4. **Phoenix, AZ**	40.4	5.0	4.2
5. **Atlanta, GA**	36.3	4.6	4.2
6. **Raleigh-Durham, NC**	31.2	4.6	4.5
7. **Huntsville, AL**	41.9	4.3	3.8
8. **Washington, DC**	32.3	4.2	4.4
9. **Dallas-Fort Worth, TX**	23.5	5.3	3.9
10. **San Diego, CA**	26.8	4.1	4.3
11. **Nashville, TN**	25.2	4.2	4.2
12. **Tucson, AZ**	27.1	4.3	3.7
13. **Portsmouth-Dover, NH**	29.3	3.3	4.2
14. **Albuquerque, NM**	23.4	3.7	4.1
15. **Tampa-St.Petersburg, FL**	28.8	3.9	3.4
16. **Pensacola, FL**	26.2	3.5	3.8
17. **Fort Myers, FL**	44.7	3.9	2.3
18. **South Bend, IN**	22.1	3.4	4.1
19. **Charleston, SC**	24.7	4.1	3.2
20. **Norfolk-Portsmouth, VA**	27.4	3.7	3.4
21. **San Antonio, TX**	15.2	4.2	3.6
22. **Jacksonville, FL**	26.1	3.6	3.4
23. **Boston, MA**	17.5	2.8	4.6
24. **Baltimore, MD**	17.8	3.4	3.9
25. **Richmond, VA**	17.7	3.1	4.1

Among the hottest cities, overall growth in employment is linked directly to a healthy number of young, fast-growing companies . . .

METRO RANKING/THE BOTTOM 25

Rank/Area	Growth In Jobs	Business Birthrate	% of Fast-Growing Companies
132. **Brownsville, TX**	0.8%	2.6%	2.0%
133. **Tulsa, OK**	–4.6	2.8	2.1
134. **Allentown, PA**	3.4	1.8	2.5
135. **Scranton, PA**	9.1	1.5	2.4
136. **Tyler, TX**	–6.1	3.2	1.6
137. **New Orleans, LA**	–7.5	2.6	2.2
138. **Erie, PA**	0.0	1.7	2.5
139. **Shreveport, LA**	–3.9	2.9	1.6
140. **Columbus, GA**	14.5	2.5	0.8
141. **Johnson City, TN**	8.3	2.4	1.2
142. **Beaumont, TX**	–17.1	3.0	2.0
143. **Amarillo, TX**	1.1	2.6	1.2
144. **Lubbock, TX**	–3.7	1.9	2.1
145. **Utica-Rome, NY**	9.5	1.2	1.9
146. **Springfield, IL**	4.1	1.3	2.1
147. **Charleston, WV**	–5.8	2.5	1.6
148. **Huntington, WV**	–5.1	2.7	1.2
149. **Reading, PA**	5.3	1.6	1.5
150. **Davenport, IA**	2.5	1.6	1.6
151. **Oklahoma City, OK**	–11.3	2.6	1.5
152. **Canton, OH**	2.7	2.2	1.0
153. **Peoria, IL**	–7.8	1.9	1.8
154. **Duluth, MN**	–11.4	1.7	2.0
155. **Lafayette, LA**	–27.0	3.1	1.3
156. **Odessa-Midland, TX**	–31.1	2.3	1.8

. . . While in many oil and mining towns, staggering declines in overall employment have dampened entrepreneurial activity.

year's metro class. David Moberg's examination of Chicago's distinctly unentrepreneurial economy begins on page 84.

Every city likes to think that its progress is a result of its own hard work, but sometimes the presence of strong cities nearby has a lot to do with it. That may help to explain the great strides made this year by Richmond and Baltimore, and the continued strong performance of Norfolk, Va., which together have begun to define an outer edge for the booming Washington, D.C. (#8) economy. Boston, #23, which long ago started to spin off booming high-tech satellites in Manchester and Portsmouth, N.H., also seems to have added Portland, Maine, to its constellation. Portland has moved up a whopping 39 places this year.

Not all of the comers on this year's list can be so neatly explained. In the Old South, impressive gains were posted by Jackson, Miss.; Birmingham, Ala.; Knoxville, Tenn.; Greensboro, N.C.; and Macon, Ga.—once sleepy cities with rural roots, they now boast an impressive number of their own young, fast-growing firms. In the heartland, Cedar Rapids and Topeka began to pull themselves out of the Farm-belt slump. Dayton stepped confidently out of the bottom third of our list, on the strength of its tradition of aerospace engineering and its Air Force connections. Other cities to watch: Charlotte, N.C. (#32), which has leveraged bank deregulation to build itself into a mighty financial center; and Seattle (#40), making an impressive transition from aerospace manufacturing to a more diverse economy with plenty of new companies in the growth areas of high tech and Pacific Rim trade.

METRO REPORT continues on page 80

HOW THE CITIES WERE RANKED Our annual report on metropolitan areas is based on three objective factors: job generation, rate of significant new business start-ups, and the percentage of young companies enjoying high growth rates. For each factor, each metropolitan area was assigned a score from 1 to 33.33, reflecting its relative standing among cities in the United States. The overall rank of a city was based on the sum of the three scores.

Metropolitan areas were defined as counties or groups of counties closely related by community patterns. In general, a densely settled suburban community was grouped with an urban county if 15% of its residents reported working in the city.

The rate of significant business births was derived by dividing the total number of business enterprises in an area by the number founded since January 1983 that had 10 or more employees by July 1987. The number of high-growth companies was figured as a percentage of all companies founded between January 1979 and January 1983. For each company, an index was calculated by multiplying its absolute growth in employment between January 1983 and July 1987 by its percentage of employment growth during the same period. Companies with an index of 20 or higher were classified as high growth. Employment figures, compiled from data collected by the Bureau of the Census and the Bureau of Labor Statistics, measure the change in private employment between January 1983 and March 1987.

All data were provided by Cognetics Inc., in Cambridge, Mass., and prepared under the direction of special projects editor Sara Baer-Sinnott. For a complete listing of all rankings or for information on reprints, call Judith Comstock at (800) 372-0018.

METRO REPORT

THRIVING ON ADVERSITY

Sometimes entrepreneurship does best when the local economy appears to have taken a turn for the worse

BY DAVID L. BIRCH

IT DOES SEEM A BIT STRANGE. There they are, Austin and Dallas, suffering through a two-year, Texas-size slowdown, right up there among the top 10 on INC.'s ranking of metropolitan areas. And from the Indiana Rustbelt come South Bend and Indianapolis and Fort Wayne, edging out such Sunbelt boomtowns as Miami and Santa Barbara. How is it that INC. is so bullish on cities that everyone knows are laying off, cutting back, and watching the price of real estate drop?

The layoff of some 50,000 aircraft workers started a wave of entrepreneurship.

Actually, it is not as strange as it may look. The explanation is often quite simple: entrepreneurship thrives on adversity. The INC. metropolitan ranking, after all, is *not* a general measure of this year's prosperity. Instead, it attempts to capture the economic yeastiness of a community—the extent to which it has offered a good climate for starting and growing companies over a five-year period. And as the results bear out, sometimes a severe problem in one part of a city's economy—a major plant shutdown or a shakeout in a dominant industry—can actually stimulate the process by which companies are started.

The correlation is not statistically precise, I admit, but from the standpoint of human motivation, it makes plenty of sense. What do you do when you've been laid off by your company or forced into early retirement, and every other company like yours is also cutting back? You can stay unemployed. You can take a job you really don't want simply to stay alive. You can leave. Or you can start a company. And in some places, this last option has been taken up with enthusiasm.

Seattle was one such place. When The Boeing Co. laid off some 50,000 aircraft workers, engineers, and managers in the early 1970s, many people who lived in the area were reluctant to move. The resulting surge in entrepreneurship created a much more diversified economy that today serves as the base of a healthy region, #40 on this year's list.

Much the same thing happened in Boston when cutbacks in defense outlays and contracts took the unemployment rate close to 11% in 1975. Today's prosperity in Massachusetts can be traced to several thousand companies that formed during that period and the years following, about 3,000 of which are now categorized as fast growth. Boston is ranked #23 this year.

Detroit had a similar experience following the 1981 to '82 automobile industry cutbacks, as companies sprang up to sell parts and services that previously had been provided in-house at General Motors, Chrysler, and Ford. Other companies ventured into the hot new field of factory automation,

Much of its growth comes from firms formed during 1970s defense cutbacks.

PHOTOGRAPHS: LEFT, EDDIE HIRONAKA/THE IMAGE BANK; RIGHT, GUIDO A. ROSSI/THE IMAGE BANK

spurred by hundreds of millions of dollars in contracts from the Big Three. Today, as last year, Detroit holds the #50 spot on the metro ranking.

Indeed, the response-to-adversity phenomenon can be generalized to national recessions as well as local ones. One of the great strengths of our economy—especially as compared with those of Western Europe—is the penchant for entrepreneurship as a safety valve that builds the groundwork for a speedier and more lasting recovery. Many of the seeds for the enormous growth and prosperity of the past five years were sowed during the 1981 to '82 recession, when new corporate formations hit all-time highs. Similarly, the 1976 to '80 surge was based in great measure on record-level corporate-formation rates during the difficult period between 1973 and 1975.

Restructuring of the auto industry created new opportunities for small suppliers.

This countercyclical explanation would be an easy one if it happened in every place every time. But it doesn't. While Dallas, Austin, San Antonio, and El Paso continue to rank well, entrepreneurially speaking, such oil-dependent cities as Midland, Tex., Oklahoma City, and Shreveport, La., languish near the bottom of the list. Nor has adversity spurred on Duluth, Minn., in the same way as it has helped to spur on Lincoln, Nebr., Dayton, or Des Moines. Why?

One important difference seems to be that some places have a stronger entrepreneurial culture than others. By that I mean they are relatively "open" economies that are not controlled by a small number of families or large companies. They tend to have a large university or corporate research facility that generates new ideas and new technology and attracts new people. Their banking and business environment is competitive, their social structure fluid.

In contrast, the cities without a culture of entrepreneurship tend to be in the mold of the old company towns. Newcomers are not so welcome, and growing companies that bid up wage rates are not always viewed with enthusiasm in business circles. In these places, people sitting around the dinner table tend not to think of starting a company as an option because virtually nobody they know has done it. The models for success in these cities are decidedly "corporate." Banks tend to export their capital rather than risk it locally. Newspapers rarely write about entrepreneurs, even if they succeed. Company founders are rarely asked to join the right clubs or to sit on bank boards or to chair economic-development committees set up by city government.

John Kasarda at the University of North Carolina calls cities like these "upas tree cities." The dense foliage and numerous roots of the upas tree prevent any other form of vegetation from growing under it. In the same way, upas tree cities stifle entrepreneurship by providing it little nourishment or encouragement. People inclined to start businesses tend to leave such places and take their talents where they are appreciated, and where they can find the resources they need. The accompanying "Business Climate Test" might give an indication whether your own city is such a place.

Obviously, any city can cite its list of 10 prominent entrepreneurs. But the question is whether those 10 *are* the list or simply top it—whether those entrepreneurs have succeeded because of the city's business climate, or in spite of it. A city cannot thrive on exceptions. In the long run, it will thrive only if it is a place that responds to hard times with hustle—a place in which energetic people with new ideas feel comfortable branching out on their own. ☐

David L. Birch is president of Cognetics Inc. and director of MIT's Program on Neighborhood and Regional Change.

METRO REPORT continues on page 84

A Business Climate Test

A quick way to measure your city's entrepreneurial culture

Whether your city is high or low on the INC. metro ranking may depend less on how the downtown real-estate market is doing at this moment or whether the dominant industry is in a slump than on the city's entrepreneurial climate. While there is no precise way to measure that climate, the following quiz should give you an approximation.

1. When the mayor of the city meets with business leaders, are there as many chief executive officers of midsize growth companies as bankers and corporate executives?
2. Are entrepreneurs invited to join the best athletic, social, and country clubs?
3. Does the local newspaper follow the fortunes of start-ups and midsize growth companies with the same intensity and sophistication as it does large corporations?
4. Are innovative companies able to recruit nearly all of their professional work force from the local area?
5. Is there a sizable, visible venture capital community?
6. Does the local university encourage its faculty and its students to participate in entrepreneurial spin-offs?
7. Do growth-company CEOs and venture capitalists hold even a quarter of the seats on the boards of the three largest banks?
8. Does the city's economic-development department spend more time helping local companies grow than it does chasing after branch facilities for out-of-state corporations?
9. Is there decent, affordable office and factory space available for new businesses in the central business district?
10. Can you quickly think of 10 recent spin-offs—growth companies started by entrepreneurs who have left large companies?

Score: Give your city 10 points for every yes answer, and figure 60 points as the passing grade. If your city scores above 60, congratulations. If it falls below, perhaps this test—like the Metro Report itself—suggests a new set of economic priorities for your city's business and political leaders.

PHOTOGRAPH: DAVID J. MAENZA/THE IMAGE BANK

METRO REPORT

CAN CHICAGO BE SAVED?

Among the nation's biggest cities, Chicago lags behind, a victim of political division, a big-company mentality, and its own past success

BY DAVID MOBERG

TO THE POET IT WAS THE "CITY OF the big shoulders," the paradigm of a thriving metropolis in the American industrial era. To the politician it was the "city that works," proud, hardworking, and so full of opportunity that blue-collar immigrants would write the folks back home, "If you can't find a job in Chicago, you can't find one anywhere."

Carl Sandburg and Richard Daley are gone now, and so, alas, is the Chicago that each helped to define. Although it is still a big and vibrant city, Chicago's manufacturing base has been eroded, its growth slowed, and its economic future is uncertain. Like the large industrial corporations on which it was built, Chicago has only slowly and reluctantly adapted itself to the entrepreneurial era that has helped to sustain or revive so many other cities.

The figures on the INC. Metro Report tell part of the story. Of the 14 biggest cities with work forces larger than a million, Chicago is able to beat out only the much-maligned Cleveland. Not only does Chicago lag behind Sunbelt boomtowns Los Angeles and Miami, and high-technology meccas Boston and San Francisco, but it also takes a backseat to such midsize Rustbelt towns as South Bend. To think of Chicago is to think of none of the new companies or industries that are helping to reshape the American economy. The new Chicago millionaires are not industrialists or retailers or high-tech wizards, but successful traders and manipulators on the commodities and financial futures exchanges.

WOUNDED GIANT

Among metro areas with more than a million workers, Chicago ranks next to the bottom of the INC. rankings

	Growth in Jobs	Business Birthrate	% High-Growth Companies	Total Score
Atlanta	36.3	4.6	4.2	69.94
Washington, D. C.	32.3	4.2	4.4	67.37
Dallas	23.5	5.3	3.9	67.19
Boston	17.5	2.8	4.6	54.90
Los Angeles	16.7	3.5	3.4	51.03
Minneapolis	15.2	2.8	4.1	50.85
Miami	18.2	3.8	2.8	49.53
San Francisco	14.1	2.8	3.9	49.16
Philadelphia	13.6	2.5	3.8	46.60
Detroit	21.8	2.6	3.2	46.51
New York	12.5	2.6	3.1	42.32
Houston	-11.1	4.2	2.8	40.64
CHICAGO	**10.2**	**2.4**	**3.1**	**40.29**
Cleveland	5.9	2.2	3.2	38.13

One reason for Chicago's lackluster employment growth has been the city's inability to spawn new companies.

Why?

In many ways, Chicago is a victim of its own past success. At the turn of the century, Chicago was the colossus among American cities. It had played a central role in developing the nation's agricultural production with its tractors and tools (International Harvester) and shared in much of the nation's agricultural wealth (Beatrice Foods). Its railroads—including Chicago & North Western and the Burlington Northern lines—pioneered the form of the modern corporation, and it was in Chicago that factories produced the steel for the tracks and the Pullman cars that rode over them. Through it all, Chicago's corporations thrived on mass production (the meat packers once clustered around the famed Chicago stockyards were the original disassembly lines), mass distribution (the Merchandise Mart of Chicago), and mass marketing (Chicago-based Sears Roebuck, Montgomery Ward, and Spiegel). Chicago's blue-collar work force turned out just about everything—from engines and machine tools to such durables as televisions, radios, telephones, and bicycles—for a growing and prosperous economy.

Trouble came late to Chicago—and was seen even later. Because of its size and diversity, Chicago was able to flourish through most of this century, even after the bottom fell out of economies in one-industry towns such as Pittsburgh and Detroit. But Chicago seemed determined not to learn from their examples. Lots of

Chicago, a city blinded by its own success

people had made lots of money, in the process creating a comfortable, conservative business culture that led managers to resist change and to ignore problems.

Once it began in the early 1980s, the pace of decline was staggering. Between 1979 and 1984, the city lost about a quarter of its manufacturing employment, 170,000 jobs—more manufacturing jobs than there were in either Philadelphia or Pittsburgh, and nearly as many as there were in Cleveland. A study by Robert Sheets found that nearly two-thirds of those losses were the result of active disinvestment by the large corporations that had dominated the region's economy. Some, like General Electric's Hotpoint unit, planned to move production to the Sunbelt, while others, like Zenith, moved much of its production offshore. Bell & Howell, the camera maker, has virtually gotten out of manufacturing.

Chicago's small-business sector was in no position to pick up the slack. For one thing, it was relatively small: the fraction of establishments employing more than 250 employees was higher in Chicago than in any of the other major industrial cities. And small companies—particularly manufacturers—found that their fortunes were closely linked to the fortunes of the region's large corporations. In Illinois as a whole—and undoubtedly in Chicago in particular—the ratio of secondary to primary manufacturing establishments was 13 to one, compared to a national average of 7 to one. As such companies as FiatAllis, in Springfield, and International Harvester, in Rock Island, either shrank or collapsed altogether, the shock waves were felt along assembly lines all over Chicago.

In short, Chicago, even more than most cities, had built its economy and its business culture around its giant manufacturers. By the early 1980s, however, it was becoming clear that it would take a new generation of companies and company builders to provide the energy and growth for Chicago's economy. But the new generation was not readily at hand.

"Historically, Chicago had a low pressure for entrepreneurship," says Jack Sheehan, an Illinois Bell executive who heads up the Friends of Small Business network. "We had big companies growing, succeeding, and creating a sufficient supply of jobs. Over a long period of history we were not stimulated, triggered, forced to create an entrepreneurial environment. I'm afraid that, as recently as five years ago, when somebody said, 'Boy, I'd like to start a business of my own,' people would say, 'Why would you ever do that?' "

As the bad economic news began to wash over Chicago's business and political establishment, the first reaction was to declare victory and claim that Chicago had made a miraculous transition to a service and financial center. Pointing to the high rises downtown, and the glitzy shops and hotels along the lakefront, Chicago boosters declared that the city of the big shoulders had become the city of well-sharpened pencils. But not only was that untrue, it was dangerously misleading. "It was," says Loyola University of Chicago professor John Ward, "a sign of resignation, not hope."

"We tend to think we can grow small-business or service-sector jobs regardless of what's going on in other sectors," observes David Allardice, a vice-president of the Federal Reserve Bank of Chicago. "But if your state's traditional strong sectors are withering, it's going to have spillover effects on small business." Although there are always interesting exceptions, Allardice says it is naïve to think that displaced steelworkers are going to run off and start new businesses in the way laid-off engineers have during high-tech shakeouts.

Indeed, the absence of a strong high-tech sector in Chicago is a curious phenomenon. A generation ago, metropolitan Chicago was a leader in consumer electronics, with Zenith, Motorola, Admiral, and Sunbeam as major employers, and even today Cook County boasts the country's fifth largest concentration of electronics companies. Chicago also ranks third among metro areas in corporate research and development. The area is home to two prestigious laboratories, Enrico Fermi Institute and Argonne National Laboratory, and there are numerous top-drawer universities. So why isn't Chicago generating new high-tech industries to replace the old?

One reason has to do with the nature of its universities. "The biggest impediment is that there's no technology-based institution of higher learning that serves the area the way MIT, Stanford, or even the University of Minnesota does," says Michael J. Birck, president of Tellabs Inc., a 1,500-employee telecommunications-equipment manufacturer started in 1975.

The University of Chicago touts its Nobel laureates, but it is not known for its hands-on involvement with the local economy. U of C has no engineering school, and its bent has been decidedly toward theoretical research ever since Enrico Fermi conducted the first controlled, self-sustaining nuclear chain reaction there in 1942. The university has continued to play a leading role in high-energy physics, and through its affiliation with the Argonne laboratory it has taken leads in low-temperature and superconductivity research, but these have generated few commercial spin-offs. Perhaps to counter that trend, the laboratory and the university recently announced the formation of a new program to promote and lease research ideas to business. Notably, however, the first contract went to a company in Tucson.

Because of its size and diversity, trouble came late to Chicago—and was seen even later.

There *is* a strong engineering school at Northwestern University, in nearby Evanston, but only recently has the school tried to overcome its traditional aloofness by linking its researchers to local business through Northwestern University/Evanston Research Park, an innovation center, and a concentration on new materials research. And just three hours away in Champaign, the University of Illinois turns out more engineers than any other school in the country, but more than half of its graduates eventually leave the state.

The attitude of its universities, however, cannot fully explain Chicago's disappointing high-tech performance. Ann Markusen, coauthor of *High Tech America* and the author of studies of regional economies, makes a convincing case that the pattern of military spending has a lot to do with it. "Defense spending per capita is a very important determinant of where high-tech growth has taken place," Markusen explains, "and defense spending has increasingly detoured the industrial heartland."

Illinois as a whole has been something of a poor relation when it comes to landing defense-procurement contracts. In 1951, Illinois, on a per-capita basis, had 90% of the national average of defense-procurement spending, dropping to 20% by 1984. By contrast, during the same period, Massachusetts went from the national average to 230% of the national average, and California from 180% to 210%. And when

PHOTOGRAPH: MARK SEGAL

Chicago, the city of corporate giants

research funds are broken out, the area looks even worse: the Great Lake states get only 14% of the national average for military R&D money, compared with 157% for New England and 175% for the Pacific Coast states.

"Chicago today is known for . . . I don't think I can pin a label on what it is known for," says Robert Pershing, president of Teltrend Inc., a Chicago high-tech firm that was #93 on last year's INC. 500 list of the fastest-growing private companies. "At one time you could say radio and television- . . . . Today, it's not. Steel—we all know what happened to that industry. It's not known any more for extremely large consumer goods. It's not known for military. It's not automobiles. What is it? The drawback is that Chicago has not become known as the leader in anything. Silicon Valley is A in electronics, Detroit is A in autos, and Chicago is B and C in lots of things."

In short, the diversity that for so many years served Chicago well, and allowed it to weather the cycles of various industries, now seems to some a drawback. Especially in the fast-paced world of high tech, the common complaint is that there aren't enough like-minded people around to create a vibrant high-tech community—not just entrepreneurs and engineers, but also knowledge investors and venture capitalists and consultants who often help shepherd young companies through infancy.

"Five years ago, high tech was relatively new here," says Casey Cowell, one of the founders of U.S. Robotics Inc., an INC. 500 manufacturer of data communications equipment, "so within the Chicago business community, you were talking a different language. It takes 100 to 200 start-ups before the consultants appear and the banks get familiar and the infrastructure is created to support that."

Adds Cowell, hopefully, "I think the Chicago area has now just passed that hurdle."

Chicken-and-egg question: which come first, the venture capitalists looking to invest or the entrepreneurs looking for financing? For Chicago, this is more than idle speculation.

Although less well known than those of Boston or San Francisco, and smaller than that of New York, Chicago has a significant venture capital community. A decade ago, Chicago managers controlled 10% of the nation's venture money, while today it controls only 5%, or about $1.1 billion. Worse still, much of what Chicago venture money there is, is invested somewhere else. According to Venture Economics Inc., all of the state of Illinois attracts only 3% of the nation's venture funds. The figure for metropolitan Chicago is probably closer to 2%.

"There's been plenty of venture capital in Chicago," says Jane Morris, editor of *Venture Capital Journal,* "but typically the entrepreneurs haven't been as abundant or sophisticated." Joan Fortune, a general partner at Frontenac Co., in Chicago, agrees. She insists the problem isn't availability of money but rather derives from the absence of "role models, culture, and support systems."

As you might expect, you get a different story from the company founders, who complain that Chicago's venture capitalists are too timid, too interested in large deals, and too enamored of high tech to the exclusion of the kinds of low-tech manufacturing ventures for which Chicago is ideally suited.

As for bank financing, Chicago's major lenders have not been known for their commitment to small and midsize growth companies. As their big industrial customers began to decline, the banks found themselves at a loss in trying to make the switch to smaller customers who had new ideas and technologies but not a whole lot in the way of fixed assets. In addition, the banks have been weakened by the collapse of farm and commodity prices, troubles with Third World debt, and by a string of ill-advised oil-field loans.

"I just think banks are unimaginative," complains Robert Eustace, founder of Applied Systems Inc. Despite the fact that Applied Systems is one of the nation's leading software suppliers to casualty insurance brokers, and is #13 on last year's INC. 500, "we still have financing difficulties. I don't know if they understand the business."

To help bridge this financing gap, the Chicago Capital Fund was started in 1986 and by the end of last year had raised $7 million. Research at the time showed that venture funds had avoided deals of less than $500,000 because of high costs and low returns. Yet it was in companies of this size—50 employees or fewer—that most new jobs in Chicago were being generated, at least in manufacturing. Chicago Capital Fund aims to put out smaller investments with lower but more reliable returns than most private venture funds. But, like most other venture funds, it is focusing on second-stage financing, steering clear of start-ups. So-called seed capital is a gaping hole in Chicago's already spotty and conservative financing structure.

"There is no reliable source of start-up financing in this town," concedes Lawrence Rosser, president of Chicago Capital Fund. "Other cities have done a better job."

Like most cities, Chicago is a study in contrasts. Only a few miles from the wastelands of Chicago's South Side rise the glass and steel towers of the Loop, which has seen $10 billion in construction completed or committed since 1979. Along the West Side, you can drive by desolate stretches of decayed housing and industrial facilities that look like Dresden after the fire storm. But there is nothing short of a little high-tech boomlet in the comfortable western and northern suburbs of Du Page and Lake Counties, where software, telecommunications, and pharmaceutical companies have begun to cluster.

In Chicago, these are more than mere contrasts. In reality, they are the manifestations of deep divisions—divisions that, until recently, have made it hard for the different Chicagos to admit to their declining economic circumstance and join together to meet the challenge head-on.

Chicago's universities have shied away from hands-on involvement with the local economy.

Partly that is a political failing, one that must be laid at the feet of the man who defined Chicago politics for more than a generation, Mayor Richard J. Daley. Although Daley proclaimed his the "city that works" and took special pride in the fact that he lived in a working-class neighborhood, his tenure was marked by nothing more than the abandonment of working-class Chicago. Daley's preoccupation was with the highway, the urban-renewal bulldozer, and the skyscraper, and his focus was single-mindedly on the downtown Loop. Undoubtedly, some of that attention was justifiable, but it often proceeded from cynical motives. The downtown building boom provided jobs for the conservative building trade unions that were strong supporters of the Daley machine. It offered a grab bag of graft and windfall profits for the speculators, aldermen, and machine insiders who milked the deals for every penny. And it gave Daley's patronage-burdened city government an

PHOTOGRAPH: STOCKPHOTOS/CHARLES VARON

Chicago, a city often divided against itself

expanding base of property tax revenues. For Daley, revenue was more important than economic growth, and patronage jobs—public or private—were the only ones that counted. It is a commentary on his priorities that the city didn't have an economic-development office until just before his death in 1976.

Other political institutions failed the city. The age-old antagonism between the Democratic machine in Chicago and a succession of Republican governors in Springfield was for many years a barrier to effective state economic-development initiatives. And in Congress, the partisan divisions back home reflected themselves in an Illinois delegation that, although large, lacked the cohesion necessary for winning key grants and contracts. According to a report of the big-business-dominated Commercial Club of Chicago, Illinois suffered the loss of $32 billion in federal spending between 1983 and 1985, just about the amount gained during the same period by the state of California.

For different reasons, the business community was late in responding to the deterioration of Chicago's economic base. Pride can explain some of it. But also at work was an ideological bias with its roots in the economic theories of the so-called Chicago School.

"Milton Friedman [and his colleagues at the University of Chicago] had an enormous influence here," argues George Kalidonis, a former Procter & Gamble executive who now heads the Chicagoland Enterprise Center. "Many business leaders were his students or picked up his extreme free-market view of business life." In economic-development circles, the buzzwords today are "public-private partnerships." In Chicago, the very notion of such partnerships was anathema to business leaders who saw their only responsibility as serving the immediate interests of stockholders rather than the long-term interests of the Chicago-area economy.

Race is also a factor. As an Illinois politician of the last century might have put it, a city divided against itself cannot prosper. And until recently Chicago has been one of the most racially divided and segregated of the big American cities.

Chicago blacks, who now account for 40% of the population of the city proper, have taken the brunt of the city's economic decline. In the 1950s and '60s, the city's industrial plants had offered poor blacks moving up from the South an opportunity for decent jobs and a chance to move, however modestly, into the city's middle class. When those factories closed, it was black workers who were hit disproportionately, and it was laid-off black workers who had the hardest time finding other work.

Nor were there many other avenues for black advancement. Despite the presence of some of the largest black-owned businesses in the country, such as Soft Sheen Products Inc. and the publisher of *Jet* and *Ebony* magazines, black entrepreneurship was very limited, a result of discrimination and the lack of an entrepreneurial tradition. Jesse Jackson's Operation PUSH had successfully fought for black franchises from big chains, and Elijah Muhammad's Nation of Islam had once encouraged blacks to start their own businesses. But overall, both have had minimal impact.

In 1983, there were two events that began to break the back of the old system and hinted at a new Chicago, one more united and determined to address its economic future. The first was the upset election of Harold Washington as the city's first black mayor. Washington's campaign pledged reform of the corrupt city government, and promised a new emphasis on balancing investment in downtown buildings with investment in jobs and housing in neglected neighborhoods. Among Washington's initiatives was a controversial proposal to prevent many of the city's industrial buildings from being turned into high-priced housing. The new mayor also supported a "buy Chicago" plan that pledged city government to purchase more of its goods and services from small Chicago companies and enticed a number of major businesses to do the same. Picking up on Daley's old motto, Washington vowed to make Chicago the "city that works together."

The Commercial Club formed its Civic Committee as a result of research into the Chicago economy, which led to a 1984 report, *Make No Little Plans: Jobs for Metropolitan Chicago*. The title adopted the watchword of the famed city planner and architect Daniel Burnham, whose turn-of-the-century thinking heavily influenced the development of Chicago. The report recommended a variety of cooperative public and private supports for growing businesses, and, according to George Kalidonis, represented the "symbolic break with the Milton Friedman mind-set."

Other cooperative efforts were taking shape, led by social entrepreneurs unafraid to take risks where business was reluctant, bucking the presumed wisdom of the marketplace. The Community Workshop on Economic Development has launched "community enterprises" to help poor Chicagoans create jobs in their own neighborhoods. Affiliates of CANDO, the Chicago Association of Neighborhood Development Organizations, help small businesses find space, financing, and markets, and work together to fight crime. The Center for Neighborhood Technology helps small manufacturers, either singly or cooperatively, to solve toxic-waste problems and cut energy use. The Industrial Council of Northwest Chicago has launched several successful incubators. These and many more such efforts now make Chicago the richest center for neighborhood-level economic-development efforts in the country, according to Alan Okagaki, project director of the Corporation for Enterprise Development, in Washington, D.C.

Despite his working-class ethos, Daley's tenure was marked by the abandonment of Chicago industry.

At the same time, Chicago manufacturers are realizing that they must cooperate to survive, and task forces have begun developing strategies for the apparel, steel, and printing industries. With some public funding, a business incubator was established next to a medical center and the University of Illinois at Chicago, and has spawned a few biomedical research firms. And under consideration are joint ventures and joint ownership of expensive scientific equipment. These are modest steps toward a more cooperative economic environment. But in Chicago, they represent something of a sea change.

"One of the great strengths of the people in the Midwest is their rugged individualism," says Jack Bishop, director of the Technology Innovation Center at Northwestern University, "and one of the great weaknesses of the people in the Midwest is their rugged individualism." Bishop says that most other cities long ago realized that cooperative support structures would generate economic growth. "We're just starting to develop that in Chicago," he says. ☐

David Moberg is a senior editor at In These Times, *a national newsweekly.*

Research assistance was provided by Leslie Brokaw.

PHOTOGRAPH: STOCKPHOTOS/CHARLES VARON

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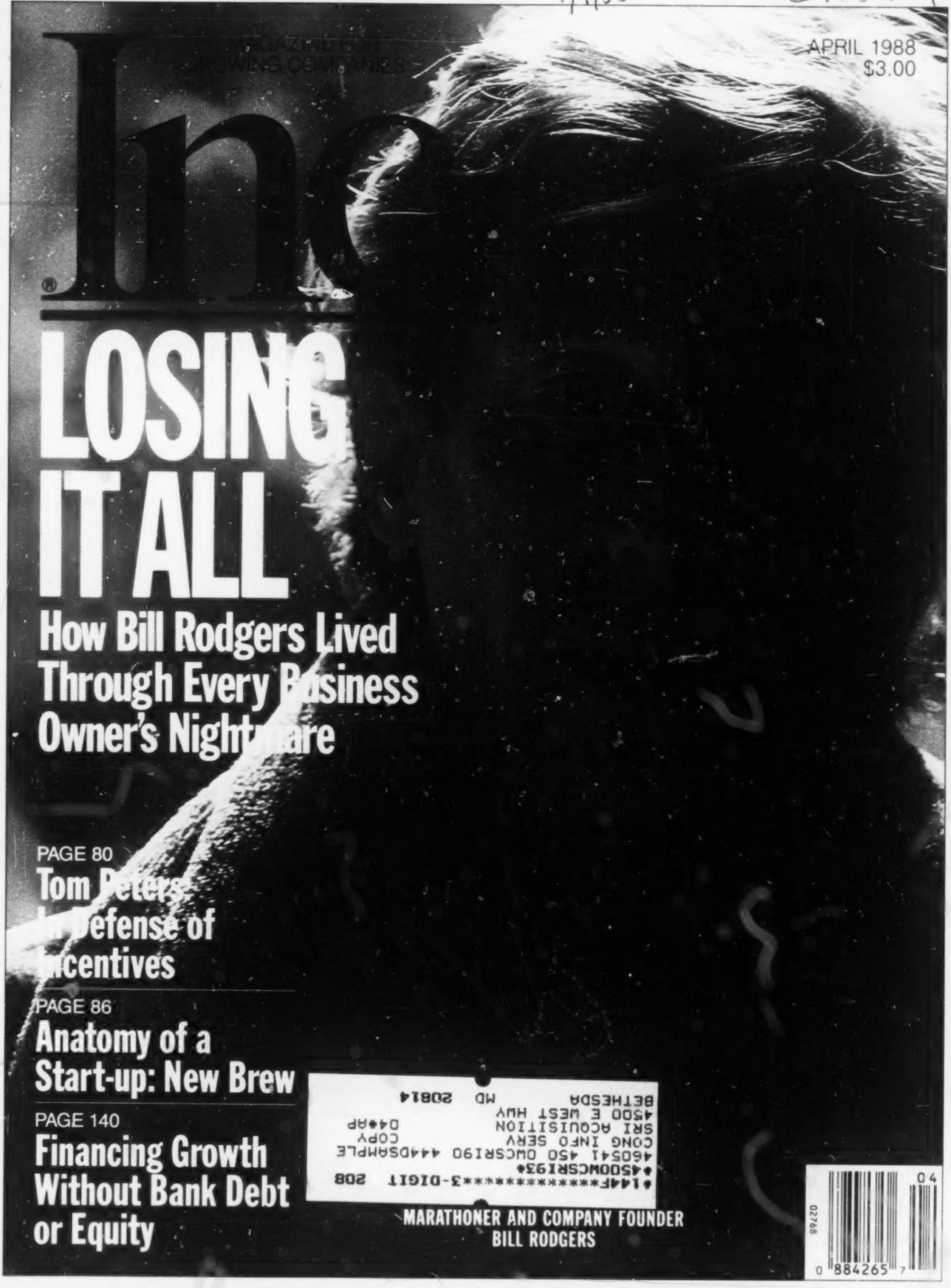

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Financing Growth Without Bank Debt or Equity

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COVER PHOTOGRAPH
by
Seth Resnick

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TRADING PLACES

The conventional wisdom is that large companies are more likely to export than small ones. Once again, the conventional wisdom is wrong

BY DAVID L. BIRCH

Small companies don't export—I hear it all the time. Join a discussion about the state of our global competitiveness and you'll hear it, too. Perhaps you'll be the one who says it.

We all worry, justifiably, about the inability of our industrial giants to compete abroad—about their inability to innovate and create attractive products at attractive prices in world markets. Though highlighted by the recent, massive trade deficit (itself highlighted by the recent, massive stock-market collapse), the problem has been gnawing at us since the mid-1970s. And if big companies can't win overseas, how on earth can smaller ones? What company of, say, 100 employees can overcome all the barriers caused by distance, language, currency, and culture? . . . Or so the hypothesis goes.

This, to some, spells trouble. I've noted before that a changing of the guard is taking place among U.S. businesses, particularly in the manufacturing sector. There has been a general decline of larger companies, offset by smaller enterprises that are growing rapidly and taking up the slack. To theorists of the small-companies-don't-export variety, the increasing significance of smaller businesses means one thing: no hope for the trade imbalance.

Fortunately, and surprisingly, the theory is wrong.

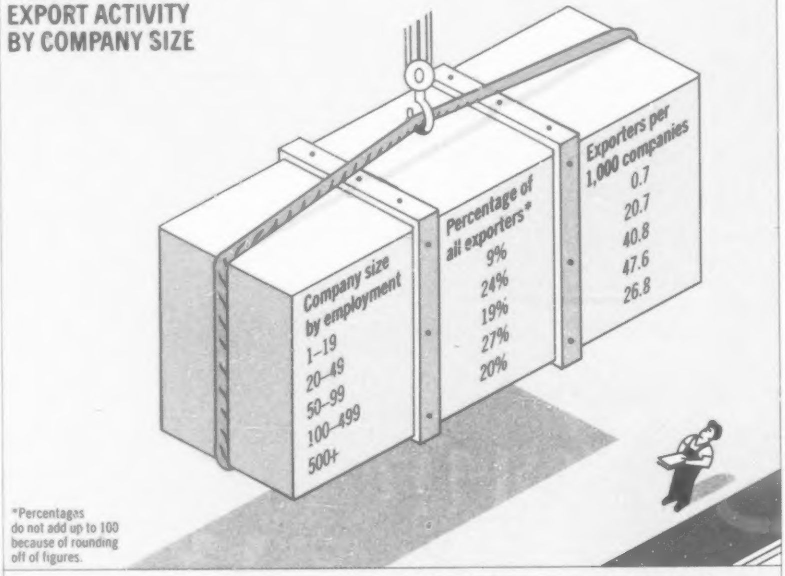
Data exist for about 40,000 companies involved in international trade, 34,000 of which export (the rest are importers only). It's not a complete sample. The international activities of many smaller companies are hard to track, so the database inevitably overemphasizes—and better represents—larger manufacturing-related companies. Still, what it indicates about smaller companies is fascinating.

First, the businesses most likely to be exporters today are small, not large. The second biggest group of exporters consists of companies with just 20 to 49 employees (see figure 1).

While statistics suggest that it's difficult for enterprises with fewer than 20 employees to reach beyond U.S. borders, trading abroad becomes common among companies that have crossed the 20-employee threshold.

In fact, more than half of all exporters have fewer than 100 employees. Even more significant, the proportion of 50- to

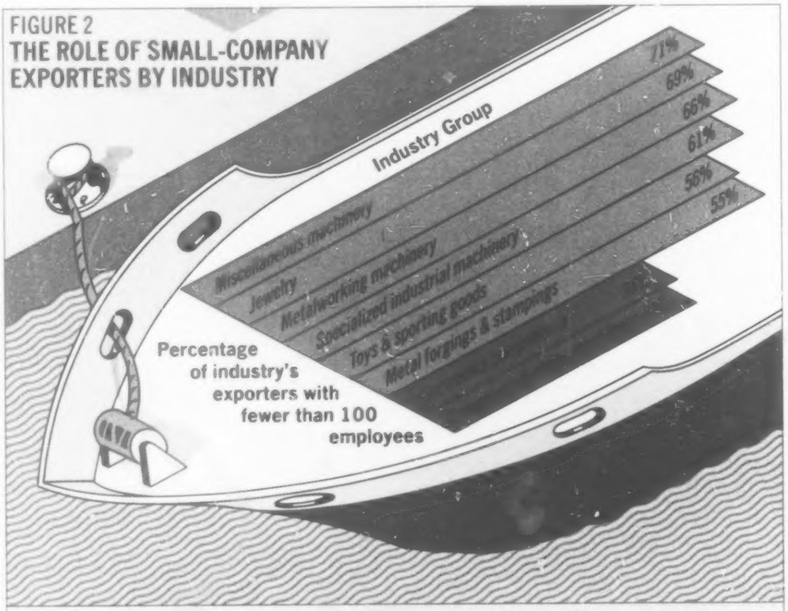
FIGURE 1
EXPORT ACTIVITY BY COMPANY SIZE



*Percentages do not add up to 100 because of rounding off of figures.

More than half of all exporters have fewer than 100 employees, and companies with 50 to 99 employees are more likely to export than those with over 500.

FIGURE 2
THE ROLE OF SMALL-COMPANY EXPORTERS BY INDUSTRY



Small-company exporters aren't high tech. Often they come from old, basic low-tech industries—in which the changing of the guard is happening fastest.

CHARTS: NIGEL HOLMES

99-employee companies that export is greater than the proportion of 500-plus-employee companies that do. Of course, this is not to say that the smaller businesses export more in aggregate than the larger ones; they don't. But it is true that small, dynamic companies *can* export successfully. They are doing so in large numbers—a finding made more remarkable by their underrepresentation in the data. So much for the myth that such companies can't export.

"Fine," a skeptic might respond, "I can imagine some smaller companies selling abroad, but they're all high-tech companies pushing a few exotic products." When it comes to basic industry, this sort of argument continues, the world is taking us to the cleaners, even in the small-business universe.

Again, not true. Small exporters tend to be found in *stable or declining* industries, many of which contain a large number of expanding companies. This makes sense. Small exporters are found in industries in which the changing of the guard is taking place the fastest. The very decline of such industries provides opportunities for smaller companies to identify a niche and figure out a clever way to exploit it—clever enough, in many cases, to support successful marketing abroad. Lots of small companies are exporting sawed lumber, steel forgings, jewelry, or toys.

The number of such low-tech exporters significantly exceeds the number of exporters of more exotic products such as computers, electronics components, or medical instruments. Almost three times more companies sell metalworking machinery abroad than export computers and office machines. And, as figure two shows, many of these low-tech exporters are smaller, not larger companies. The much-publicized woes of our basic industries appear to represent a great opportunity for small enterprises within them.

All of this would suggest that dynamic smaller businesses, already regenerating our domestic economy, might begin closing the trade gap. There's one problem: it takes smaller companies a long time to get going in export markets, and therefore a long time to make their influence felt. Almost 80% of small exporters are more than 12 years old, and virtually none are less than 4 years old. This contrasts sharply with big-company exporters, 44% of which are less than 12 years old.

It figures, in a way, that smaller companies would take longer to feel a need for foreign business, and to marshal the resources to get it. But 12 years is a long time. Given that these are the businesses that create most of the New Economy's jobs, might there be an enormous opportunity to expand exports simply by encouraging smaller businesses to cross national boundaries sooner?

Well, maybe. But we should remember that the export activity of such companies may already be better than we think. I suspect that many smaller, growing companies are selling abroad without us knowing about it. My own company has sold overseas and is not listed among the exporters in the database. Businesses that don't put their products in boxes and ship them on planes or boats (with the necessary permits) are often not listed as exporters simply because there's no way to track what they do abroad. The federal statistical system can't follow them, except through aggregate currency exchanges.

We know, for instance, that aggregate U.S. service exports are beginning to approach aggregate U.S. goods exports ($148 billion for services versus $224 billion for goods in 1986), yet nongoods exporters represent only 4% of our database.

The federal government has expressed similar concern about its own ability to monitor service exporters. The truth is, we don't really know how well a major component of the New Economy—the service sector—is doing abroad.

From what we do know, however, it's clear that exporting is not limited to large manufacturing or trading companies. We know that tens of thousands of smaller companies are selling their products and services all over the world. Many thousands that we don't know about are probably doing likewise.

For owners and managers of smaller companies who haven't thought of exporting as being feasible, these facts can serve as admonition. And inspiration, too. □

David L. Birch is president of Cognetics Inc., in Cambridge, Mass., and director of MIT's Program on Neighborhood and Regional Change.

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BY JOEL KOTKIN

▶ STORY PROPOSAL ◀

It has become apparent that the Japanese and others are busy buying up American banks. A growing number of these foreign-owned banks have made a specialty of serving what bankers call the middle market, companies ranging in size from $10 million to $250 million in sales. If our experience here in California is any indication, they are going to give the American banks a run for their money. I propose a short piece outlining the extent of the invasion by foreign-owned banks, some of the problems that have been encountered, and the effect it has had on several growing American firms.

A YEN FOR LENDING

First came foreign cars, then televisions and VCRs. Next stop, your local bank

AFTER BEING DELAYED AND stalled by half a dozen other financial institutions, California developer Ralph Rittenhouse found a local bank that was willing not only to back his small, $3-million residential development company, but even to help him promote it.

Tools and hydraulics distributor Irving Fisher's business was growing, but his bank lines were not. Despite a long-lasting relationship with a local branch loan officer, Fisher couldn't get the bank's loan committee to approve the additional financing for a planned expansion. So Fisher turned to another local bank that was willing to treat his business as a long-term growth prospect.

Over the past decade, Alan Kesten turned his small, family-owned fragrance business in Long Island City, N.Y., into an international company with $20 million in sales. Much of the credit, he says, belongs to his bankers, who recently extended $1.5 million in credit for a key expansion into an important new market.

What these three entrepreneurs have in common is that their local banks are not really local at all. In fact, they are all owned by foreigners—foreigners who have recently discovered the potential of the American middle market.

"We see this as the best way to participate in the most dynamic part of the American economy," explains William Knowles, chairman and chief executive of National Westminster Bank USA, based in Manhattan, the American subsidiary of London's financial giant. "There's no need for another bank in New York to serve Exxon. For us, the diversity in the middle market offers the best way to build long-term earnings."

Although foreign banks have operated in the United States for generations, they had traditionally stuck to servicing the financial needs of foreign corporations doing business here. No longer. As foreign countries built up large dollar reserves and their banks began looking for growing economies, the United States offered an attractive new market. Their entry was further encouraged by bank deregulation, which made it easier for foreigners to buy a midsize American bank in the hopes of taking it into regional and national markets. The pace has been nothing short of astounding: foreign-owned banks now control an estimated 22% of all commercial loans in the United States, and have become an important source of capital not just for Wall Street but also for the small and growing companies along Main Street.

The internationalization of finance and the internationalization of markets are the hands that wash each other in this economy of the 1980s. And certainly one area in which foreign-owned banks have been able to stake a claim has been in helping smaller American companies transact business overseas.

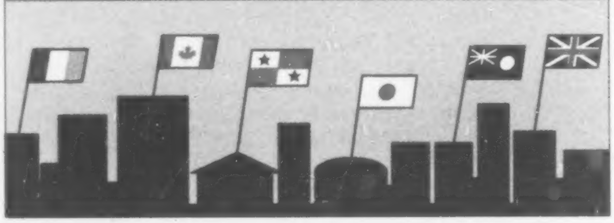
"I don't know what it is, but there doesn't seem to be a lot of interest in trade among American banks," notes Junji Hatano, a top official with The Bank of California, a

CHART ILLUSTRATIONS: DEBRA PERUGI

LARGEST U.S. BANKS CONTROLLED BY FOREIGN BANK HOLDING COMPANIES, RANKED BY ASSETS

	($ billion)
Marine Midland Bank—Buffalo, N.Y. Hongkong & Shanghai Banking—Hong Kong	$21.5
Republic National Bank of New York—New York City Saban—Panama	17.1
National Westminster Bank USA—New York City National Westminster Bank—United Kingdom	11.3
Union Bank—Los Angeles* Standard Chartered—United Kingdom	9.1
Harris Trust & Savings Bank—Chicago Bank of Montreal—Canada	8.2
Bank of Tokyo Trust—New York City Bank of Tokyo—Japan	6.0
California First Bank—San Francisco* Bank of Tokyo—Japan	6.0
Sanwa Bank California—San Francisco Sanwa Bank—Japan	5.2
First National Bank of Maryland—Baltimore Allied Irish Banks—Ireland	4.7
Fuji Bank & Trust—New York City Fuji Bank—Japan	4.6
Bank of California—San Francisco Mitsubishi Bank—Japan	4.5

*Agreement has been reached for California First to acquire Union Bank. The transaction is slated for completion in mid-1988.
Information as of 6/30/87. Source: Sheshunoff & Co. Information for Union Bank as of 12/31/87



subsidiary of Japan's giant Mitsubishi Bank, which is almost relentless in its focus on the middle market. "It's a difficult business, and it tends not to be profitable in the short run. But it cements a relationship with the customer for his domestic business."

With the dollar weak, American manufacturing firms are especially looking to overseas markets for growth and profitability, and foreign-owned banks have positioned themselves well to ride the wave—among them California First Bank, owned by Bank of Tokyo, and Walter E. Heller International Corp., the Chicago finance company now owned by The Fuji Bank. In addition to offering trade financing, these banks take pains to help client companies identify potential distributors, partners, agents, and customers overseas, leveraging their Asian connection.

It is much the same with National Westminster Bank USA, with its program targeted to European expansions. At Belmay Co., for example, CEO Alan Kesten used his bank's connections to take his fragrance-compounds manufacturing business international last year when he spotted an opportunity to set up a branch plant in Wellingborough, 70 miles north of London. Kesten's local NatWest loan officer arranged for a $1.5-million loan to finance the expansion, and the bank's branch officers in Northampton, not far from the Wellingborough facility, helped with additional local lines of credit, payroll, and other financial services.

"We told them what we wanted to do and they took us to England like we were moving next door," recalls Kesten. "Whenever we've had to move or expand, they've been very committed to us."

Other clients apparently also sense that commitment. Since 1981, NatWest's domestic loans have more than tripled, to nearly $7.3 billion, with 88% of the portfolio in midmarket commercial loans. With the purchase last year of First Jersey National Corp., in neighboring New Jersey, NatWest, with assets exceeding $11 billion, has set out to become a "superregional" serving middle-market companies throughout the Northeast.

For sheer aggressiveness, however, nothing matches the way the Japanese have attacked the American banking market. Japanese-owned banks today already account for more than 8% of the commercial loan market in the United States, up 100% since 1980 and more than three times the share now held by British banks. And by far, the most significant Japanese penetration has occurred in California, where 8 of the 12 major Japanese banks have set up shop. At first, these banks focused their attention on Japanese corporations that maintain operations in California. But more recently, they have set out to dominate the state's banking industry with the same vigor that they attacked the American auto industry a generation ago. Today, 5 of California's 11 largest banks are Japanese owned, and the Japanese now control roughly 20% of California's banking assets.

Nearly all of the acquisitions made by major Japanese banks in the state—Mitsui's purchase of Manufacturers Bank in Los Angeles, California First's recent acquisition of Union Bank, and Mitsubishi's Bank of California bid—have involved local banks known for strength in the middle market. And that is not merely coincidence. With their cultural orientation toward relationships rather than transactions, the Japanese see an advantage in serving smaller, growing companies—the very companies that complain most frequently about American banks being unresponsive and unreliable.

"When I walked in here, it was like a breath of fresh air," recalls Tom Edmiston, a former official with Wells Fargo Bank, now at California First Bank in San Francisco. "There was an attitude of teamwork that the Japanese really promote, and a real commitment to service the customer. The whole atmosphere is easier and more laid back. Instead of 'Who's going to get the credit?' or 'Who's going to get canned?' the question is 'How can we make this deal and service the customer?' "

And make deals it has. Even before the announcement of the acquisition of Los Angeles's Union Bank earlier this year, the assets of California First had soared nearly 50% during the previous five years, to more than $6 billion, making it the largest Japanese-owned bank in California and the seventh largest bank in the country. In the booming San Diego area, California First's retail market share ranks second only to Bank of America.

Irving Fisher used to be with Bank of America. But in 1975, when he needed cash to expand his growing Fisher Tool Co., d/b/a Astro Pneumatic, the bank turned him aside. "I had a great relationship with my

LARGEST BANKS IN THE WORLD, RANKED BY ASSETS

FIGURES FROM FISCAL 1986

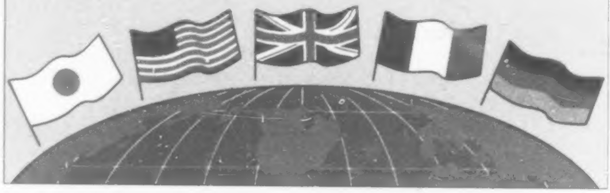
		($ billion)
Dai-Ichi Kangyo Bank	Japan	$239.6
Fuji Bank	Japan	212.4
Sumitomo Bank	Japan	205.1
Mitsubishi Bank	Japan	203.8
Sanwa Bank	Japan	191.4
Norinchukin Bank	Japan	161.6
Industrial Bank of Japan	Japan	160.8
Credit Agricole Mutuel	France	156.4
Citibank	United States	145.9
Banque Nationale de Paris	France	143.7

Source: *American Banker*, 7/31/87. Assets exclude contra accounts and contingent liabilities. Foreign currency is converted to U.S. dollars at the end of each of the company's fiscal years.

FIGURES FROM FISCAL 1980

		($ billion)
Banque Nationale de Paris	France	$107.9
Credit Agricole Mutuel	France	106.3
Bank of America	United States	104.5
Credit Lyonnais	France	98.5
Citibank	United States	96.8
Societe Generale	France	90.5
Barclays Bank	United Kingdom	88.7
Deutsche Bank	Federal Republic of Germany	87.7
National Westminster Bank	United Kingdom	82.7
Dai-Ichi Kangyo Bank	Japan	79.4

Source: *American Banker*, 7/29/81.



loan officer, but, to put it frankly, I ended up being treated like a name and number," Fisher says. "Anything over $10,000 and that was it—you get before a committee where people don't know you from Adam. And besides, Bank of America didn't have the expertise to help us with international trade."

At California First, Fisher says, response time has been vastly superior, and in 1986 alone, his credit line was increased three times. Today it stands at more than $10 million—that for a business writing $40 million a year in sales. But what impresses him most is his Japanese-style relationship with his bankers, who are apt to drop by his warehouse every couple of months to take him to lunch or, on occasion, even accompany him to trade shows. And when Fisher visits Japan looking for suppliers and distributors, all the stops are pulled out to make sure that this valued midmarket customer is treated like a first-class VIP.

"In this country, you can deposit $100,000 in your bank and they take the money," says Fisher. "But you don't make a friend—there's no feeling there. With these guys, it takes a little more time, but you build a relationship. They learn your business, and it makes a big difference."

Mind you, not all Japanese bankers are created equal in their ability to serve the American middle market—or at least not right away. A recent move by The Dai-Ichi Kangyo Bank, the world's largest, to buy a $150-million package of American loans raised some eyebrows in Tokyo. "In Japan, we get to know the president for many years," explained one Tokyo-based bank manager. "But in America, the company president is often a youngster. We don't like that at all."

Such concerns lead some Japanese banks to start out in the United States setting up arduous loan procedures marked by concern over security that appears absurd by American standards. And, as with many new foreign operations, there is always the problem of checking with the home office. "The guys I was dealing with didn't seem to have any authority at all," notes an early customer of California First. "That made them very cautious. They have a reputation for loaning money to people and then backing out. They've killed a lot of young companies here."

Because of such problems in making the transition to America, several Japanese banks initially have endured large-scale losses from their middle-market institutions—notably Mitsui Bank with Mitsui Manufacturers Bank and Fuji with Heller in Chicago. But don't for a moment count them out. Norman Blake, Heller's chairman and CEO, reminds the skeptic that it has taken him three years and $725 million in additional capital to finally turn around his troubled finance company, which this year reported its first significant profit since being acquired by Fuji for $425 million in 1984. That kind of commitment, he says, proves that the Japanese are into American banking for the long haul.

"I am awed by their long-term view," says Blake. "They were willing to suffer to get into the market. When an American company buys another company and it doesn't work out, they twist and tie it or throw it away. The Japanese are much more patient."

The Japanese are not the only foreigners to have had trouble entering the American market. Perhaps the most noteworthy failure remains the disastrous acquisition of San Francisco's Crocker National Bank, which nearly toppled London's venerable Midland Bank before it unloaded Crocker onto Wells Fargo Bank. Another British bank, Standard Chartered, suffered such heavy losses that it was forced to sell Los Angeles–based Union Bank to the Japanese.

The newest and potentially some of the strongest players in the American banking game are the Chinese. In their case, it is not large Chinese banks making the foray, as with the Japanese and British. More common is the purchase of an American bank by groups of Chinese investors, either from Hong Kong or Taiwan.

The Taiwanese are particularly aggressive. Taiwan's dollar currency reserves today stand at around $70 billion, among the largest of any foreign country. By rights, that should have made it an international banking power. But as a mercantilist state that has virtually prohibited foreign investment, Taiwan's banking potential has never been realized. Only recently has Taiwanese capital begun to flow into the United States, often through mysterious and backdoor channels. Some of it has made its way into banking.

By various reports, Taiwanese cash has played a pivotal role in the founding or purchase of around 45 banks during the past

Internationalization of finance in the 1980s has given small U.S. firms access to loans from U.S. subsidiaries of foreign banks.

decade, most of them in New York City, San Francisco, and Los Angeles. Like the Japanese, the Chinese are attracted to these locations through family and ethnic ties. But even more than the Japanese, the Taiwanese are single-minded in their focus on lending to small and growing companies, which in their native Taiwan is what business is all about.

Harold Chuang is typical of the Taiwanese banker in the United States. At age 24, Chuang left Taiwan for Los Angeles, where he was to study for his M.B.A. But like many Taiwanese students—including the vast majority of all graduate degree holders—Chuang decided to stay for the "much better opportunities" available in America. In the years that followed, Chuang founded his own accounting firm and took control of Webster Career College, a vocational training school in Los Angeles. He was already a major figure in the local Chinese business community when a group of executives from struggling American International Bank approached him for an investment. By 1985, Chuang, allied with other Chinese investors in Los Angeles and Taiwan, took control of the institution and became its chairman.

"We think Taiwan will be a major factor in the world economy," says Chuang, who also serves as the president of the National Association of Chinese-American Bankers, an organization of 22 banks in the United States. "They are going to be doing what Japan has been doing—but more in the middle market."

Initially, the middle market for American International was the booming Chinese business community in southern California. Two years ago, the bank bought a decaying Bank of America branch in Alhambra, in the heart of the heavily Asian San Gabriel Valley outside of Los Angeles. That branch, which had deposits estimated at between $10 million and $15 million, had been unprofitable for many years. It now boasts deposits of $40 million while contributing mightily to the bank's healthy profit margin.

But more recently, the Alhambra branch has been moving away from its all-Asian orientation, aggressively seeking business from others. Several non-Asian loan officers were recruited, and last year roughly half the business loans processed by the bank were to non-Asian businesses.

For at least one local business owner, the arrival of Chinese banking has been something of a godsend. Ralph Rittenhouse has been an active real-estate broker and developer in the San Gabriel Valley since 1962. But despite a successful track record, he found it almost impossible last fall to get a loan for his newest project, a nine-house subdivision in Arcadia, a well-to-do suburb east of Los Angeles.

"I went to the Bank of America and virtually every other bank or savings and loan around. But when I applied to them, they wanted to know what my other sources of income were, " Rittenhouse recalls, sitting amidst the clutter of his construction site, dressed in baseball cap and jeans. "Here I am, sitting on $700,000 to $800,000 worth of property in a place where everything is going fast, and they are asking for security. They seemed more interested in backing doctors and lawyers—who don't know the business—than an experienced developer."

Finally, a friend suggested that Rittenhouse go to American International's new Alhambra branch. The response was almost instantaneous. Not only did the bank approve a $1.4-million loan, but processing took only 30 days—certainly less than half the time at most other banks.

"Foreigners have a different evaluation process," Rittenhouse believes. "They look at the property. They look at the person. They also look at the potential for the relationship, not just the short-term money question. At Bank of America, no one ever got to know me or the market."

Rittenhouse's arrangement with American International also had one unexpected benefit. Even before the loan was formally approved, officers at the Alhambra branch started letting the word out in the Asian community about the development. "The moment I hung up after getting verbal approval, my phone started ringing off the hook," Rittenhouse recalls with a smile. "They tell their people, their realtors, and their friends. They've been all over me."

All the interest, alas, was somewhat premature—at the time he had nothing to show prospective buyers other than blueprints and construction scaffolding. Nevertheless, Rittenhouse has come to appreciate the advantages of having a banker who thinks of himself as something of a partner. And without question, he expects that his next project will also be financed by his newfound Asian associates.

Like Alan Kesten and Irving Fisher, Ralph Rittenhouse is not threatened by the "invasion" of foreign capital into the United States. Quite the opposite. For them, foreign capital has brought a healthy dose of competition to a clubby and, at times, arrogant banking industry in America. And it has provided them with an important entry into an economy that is becoming increasingly internationalized for large and small companies alike. ☐

HANDS ON

Managers' Tips

OPERATIONS

CONTROLLING INSURANCE COSTS

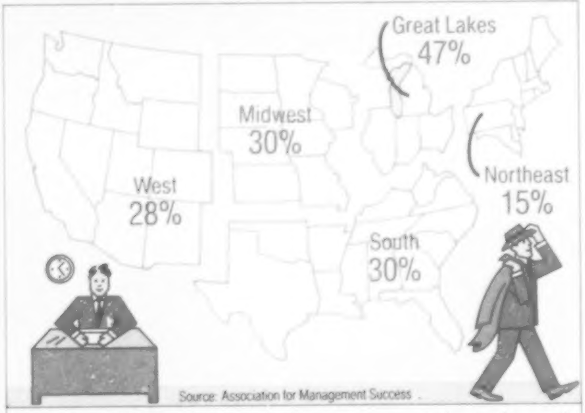
If you've never checked the way your business is classified for insurance risk, maybe you should. As Craig Hickerson discovered, an unchecked mistake can be costly.

Hickerson's lesson came in the form of a bill for workers' compensation coverage at a new branch office of his company, Kansas City, Mo.-based Hickerson Cable Installation Inc. Instead of the $1.80/$100 rate he was used to paying, the price had jumped to more than $3/$100. The reason? Hickerson had been classified with the kind of companies that string cable lines between telephone wires, something it doesn't do. Many of the the company's installations, in fact, are *underground*. "The insurance salesman thought he could slip it by me," Hickerson says. "I gave him the code we're normally classified under, and he was pretty surprised."

There are some 400 workers' compensation classifications, with rates from as little as 48¢/$100 for clerical businesses to more than $60/$100 for bridge workers. General-liability classifications are even more numerous—there are 700 to 800 of them. And liability classification errors are much more common than those for workers' comp. Call your agent today. ☐

PERSONNEL

WHERE THEY FLEX



Source: Association for Management Success

Flextime policies, allowing employees to choose their starting and quitting times within stated limits, were found at 30% of companies nationwide in 1987, compared with 15% in 1977. The map above illustrates flextime use by region.

EMPLOYEE COMMUNICATIONS

KNOW THINE ENEMY

How much should your employees know about your competition? A lot, according to Federal Express. The company's monthly internal newsletter includes two columns devoted to telling all: "Newsview," which excerpts dozens of published clips about Federal Express and its competitors, and "Competitive Corner," which has updates on the competition and tells "what Federal Express is doing to keep ahead of the enemy."

Employees learn about such happenings as United Parcel Service's test of a radio dispatch system and a gossip column's report that Jack Nicholson uses Fed Ex to get videotapes of Los Angeles Lakers games. Newsletter editor Carolyn Gause says employee surveys show that stories about competitors are among the best-read items in the publication. And at the same time that they provide some fun, she adds, the columns help employees become better informed about the industry. ☐

FINANCE

MAKING THEM PAY

Few companies like waiting for long-overdue payments. But lots of them put up with it, especially on large sales to big customers they're afraid of losing. Not so Joyce Chen Inc. Even before the Waltham, Mass., maker of quality cookware delivered its first order to a department store conglomerate, company president Helen Chen began a surprisingly effective campaign to make such buyers meet her terms.

The strategy is simple: before a sale is shipped, Chen writes letters to the accounts-payable manager, the buyer, and the division head. In them, she reiterates the terms previously agreed on and emphasizes her expectation that they be met. Sometimes she mentions her policy against filling new orders if bills for earlier ones remain outstanding. With accounts she judges particularly risky, Chen asks that her letter be acknowledged in writing. If customers can't respond to a letter, she figures, why would they bother with timely payments?

So far, it's worked. None of Chen's customers has paid late or canceled an order. The secret, she says, is getting it all on paper. "You can talk all you like, but when it comes down to brass tacks, you've got to have it written or it doesn't mean a thing." ☐

QUOTE OF THE MONTH

> *"Entrepreneurs should be realists, not optimists. Optimists always look for the light at the end of the tunnel; realists look for the next tunnel."*
>
> *—self-described realist Tom Golisano, chairman and chief executive officer of $80-million Paychex Inc., in Rochester, N.Y.*

DIAGRAMS: CYNTHIA DAVIS

HANDS ON

CAPITAL

WHERE MONEY-FINDERS FAIL

A first-time search for venture capital can be awfully confusing. Some entrepreneurs, unfamiliar with the jargon and uncertain about which steps to take and when, turn to money-finders—people who help write business plans and peddle them to venture firms. Trouble is, with many venture firms the presence of a money-finder can jeopardize your chances of making a deal.

"Money-finders are a distraction," says C. Richard Kramlich, of New Enterprise Associates, in California. "We're not bidding on the money-finder, we're bidding on the people who want to start a business. When I see finders, it's a negative."

Other venture financiers echo Kramlich. All agree that general networking within the finance community is a better way to connect with venture sources. They note that the best tips leading them to new companies often come from bankers or lawyers whose recommendations aren't made for a price. Still intent on hiring someone's help? Then at least be sure you never pay a fee up front, say the venture folks. Pay *only* upon completion of a deal. ☐

STRATEGY

YARDSTICKS

1. Profitability
2. Revenue growth
3. Productivity
4. Market share
5. Return on equity
6. Return on assets

Source: INC./*USA Today*

How INC. 500 CEOs assess performance

BENEFITS

MORALE GAP

Type of health program, from most common to least:	% of managers claiming program boosted morale:
Smoking control	9.0%
Health-risk appraisals	14.2%
Stress management	30.0%
Exercise/physical fitness	37.4%
Nutrition education	20.7%
High blood pressure control	15.0%
Weight control	34.4%

Source: *Worksite Wellness Media Report*

The health programs that make employees happiest

MANAGING PEOPLE

FOCUSING ON PRIORITIES

Among every chief executive officer's toughest challenges is keeping employees focused on what matters most—which, in the case of William H. Wilson's Pioneer/Eclipse, is "customers and quality." For Wilson, president of the cleaning-system manufacturer, instilling that focus was a two-step process.

First he initiated a "CQ" (customers and quality) campaign, handing out CQ badges, buttons, and posters, and placing CQ notes in pay envelopes. "The problem in my manufacturing plant was that employees didn't relate to customers," Wilson says. "They didn't realize that their boss *is* the customer."

To hammer home that lesson, Wilson puts his employees in closer contact with customers. He rotates managers into the customer-relations department, where they deal with the people who use the company's products. And he takes customers on tours of his plant, where they are introduced to line workers. The point, Wilson says, is simple: "We want to live and breathe the CQ program." ☐

COMPENSATION

INCENTIVES IN UNLIKELY PLACES

Beyond providing commissions for salespeople, many chief executive officers assume that searching for effective employee incentives isn't worth the trouble. But James A. Poure's experience suggests otherwise. Poure, head of General Alum & Chemical Corp., in Toledo, has built an incentive program for his company's truck drivers—with enviable results.

Instead of compensating drivers on an hourly basis, he encourages efficiency by paying them a percentage of freight tariff rates, which vary according to the weight of the load, the distance, and other factors. Now, says Poure, it's up to the drivers to manage their own time. Whether a trip takes four hours or eight, they earn the same amount. To discourage speeding and overweight loading, drivers are required to pay their own fines.

Poure calculates that General Alum now spends 15% less than it would pay for outside trucking, due to efficiency gains. Plus, it retains good drivers. The company's seven drivers, who still get paid vacations and medical coverage, earn 10% to 30% more than they'd earn on an hourly basis. ☐

PUBLIC RELATIONS

DRESSING FOR SUCCESS

If customers are getting the wrong idea about your business, maybe you've overlooked a detail that shapes their first impressions. Consider, for instance, your employees' clothing. Carl Schmitt found out at University National Bank & Trust Co., in Palo Alto, Calif., sometimes even slight changes in frontline attire can send patrons a new message.

When the bank opened, in 1980, it was perceived by some potential customers as elitist, in part because of its lofty account requirements (now at $1,500 minimum or $3,000 average balance for free checking). To create a more folksy feeling, a kind of dress code was developed: most of the men, from chief executive to teller, shed their jackets at the door.

"They work in their shirtsleeves," says Schmitt, who usually can be found coatless. "The idea is to go against that exclusive aura." Schmitt is quick to add, however, that the shirtsleeves are *not* rolled up. ☐

Reported by Leslie Brokaw, Teri Lammers, Sara P. Noble, Bruce G. Posner, and Stephen D. Solomon

5/4/88

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THE 10TH ANNUAL INC. 100

Inc.

THE MAGAZINE FOR
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MAY 1988
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1988's FASTEST-GROWING SMALL PUBLIC COMPANIES

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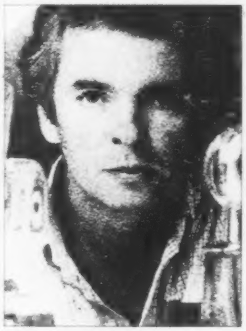

70 Mark Laracy
Taking on the perfume establishment

COVER ILLUSTRATION
by
Min Jae Hong

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DOWN, BUT NOT OUT

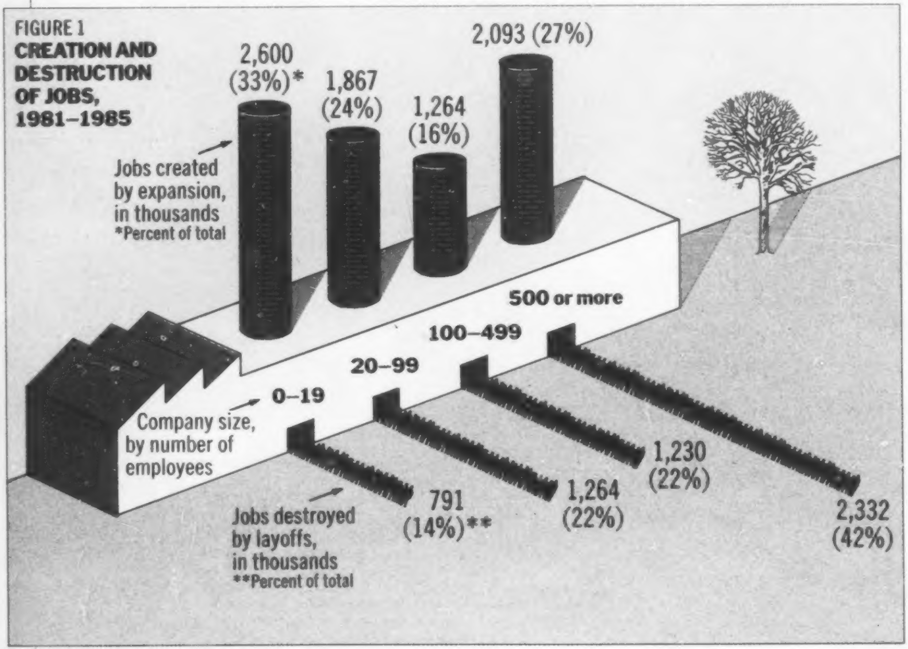
If small growth companies really have become our economy's engine, does 'big' necessarily mean 'bad'?

BY DAVID L. BIRCH

As its more faithful readers know, big companies haven't been this column's favorite topic. Not that their performance of late has suggested they should have been. From 1980 to 1986, the *Fortune* 500 as a group eliminated some 2.8 million jobs. Downsizing of similar proportions has occurred in Europe. Even in Japan there are rumors of large-company work-force reductions.

One result of such sobering facts is the increased noise about the performance of smaller companies—particularly smaller growth companies. Another result, less talked about, is the temptation to believe that big companies are relics of the past, that they are just so many economic dinosaurs unfit for survival in our newly competitive age. Is the conviction true?

FIGURE 1
CREATION AND DESTRUCTION OF JOBS, 1981–1985



True, big companies lay off more workers than they hire, but the U.S. economy still benefits greatly from the jobs created by big businesses that do *expand. Large companies remain the second-largest job source.*

Not at all. In fact, a careful look at the performance of large companies reveals that many of them are highly successful and seem quite unimpeded by size. To be sure, the big-company gainers are buried in the midst of a larger group of losers—but they are there, and thriving, nonetheless. It's interesting to examine exactly how they grow.

The significance of these larger businesses first shows up when we examine the source of replacement jobs—new jobs replacing ones lost due to layoffs or closings. The second largest source of replacement jobs, besides start-ups, was large, growing companies (see figure 1). Large companies were also by far the biggest source of job losses, and, on balance, big business destroyed more jobs than it created. But we shouldn't let the net results mask the fact that the U.S. economy benefits very significantly from growth on the high as well as the low end of the company-size scale.

What can we learn from our data about large, growing companies? How do they maintain their levels of innovation and competitiveness when so many other large companies seem to be struggling? To find out, we have examined the operations of such companies across all their branch locations, hoping to learn whether their growth is consistent companywide. In particular, we identified a group of about 1,700 large companies that had established at least 10 locations in the United States, and that employed at least 500 people collectively in their branches as of June 1987. The vast majority of these businesses employed more than 1,000 people in total, and 57% of them employed more than 5,000; these are substantial outfits.

The first thing we notice is that these larger businesses grow primarily by *adding* new branches, not by encouraging innovation and growth within existing facilities. About 14% of all large companies increased their total employment by more than 50% from 1982 to 1987, but only 3% of them did so by expanding their existing 1982 locations (see figure 2).

There is nothing wrong with growth through addition of facilities. Some of America's most successful companies have created millions of jobs in just this way. The franchisors are a classic example. So are such companies as Federal Express, Wal-Mart Stores, Citicorp, and Holiday Inns.

The question remains, though: are there big companies that are able to stimulate the expansion of their *existing* operations as though each were a small, growing business—making the "intrapreneurship" concept work? The evidence suggests there are very few. Only 7% of all the large businesses we studied were able to increase more than half their facilities *at all* during this five-year period, and even of the rapidly growing companies, only 17% could do so. There are a few exceptions. Such companies as Rolm, American Honda Motor, Arthur Andersen, Piedmont Aviation, and Prime Computer have grown a large percentage of

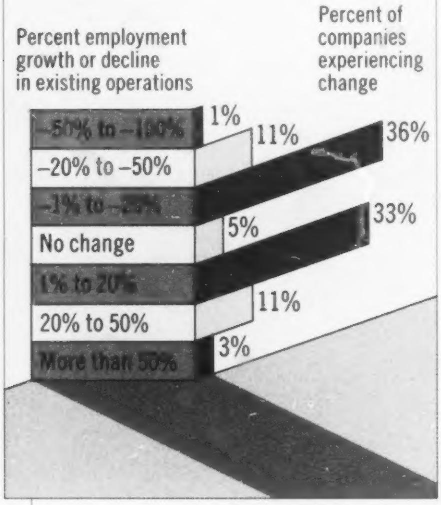
CHARTS: NIGEL HOLMES

their existing operations, rather than simply growing by acquisition or new-facility start-up. But they are just a handful.

In short, growth by larger companies is overwhelmingly a function of creating more copies of a good thing. The innovation flows from the initial concept (perhaps modified over time) and the company's ability to manage a network of outposts that are based on that concept. Very little growth comes from innovation within the outposts.

FIGURE 2

SOURCE OF GROWTH OR DECLINE IN EXISTING OPERATIONS OF LARGE COMPANIES 1982–1987



Large companies expand mainly by adding new facilities, not by growing existing ones.

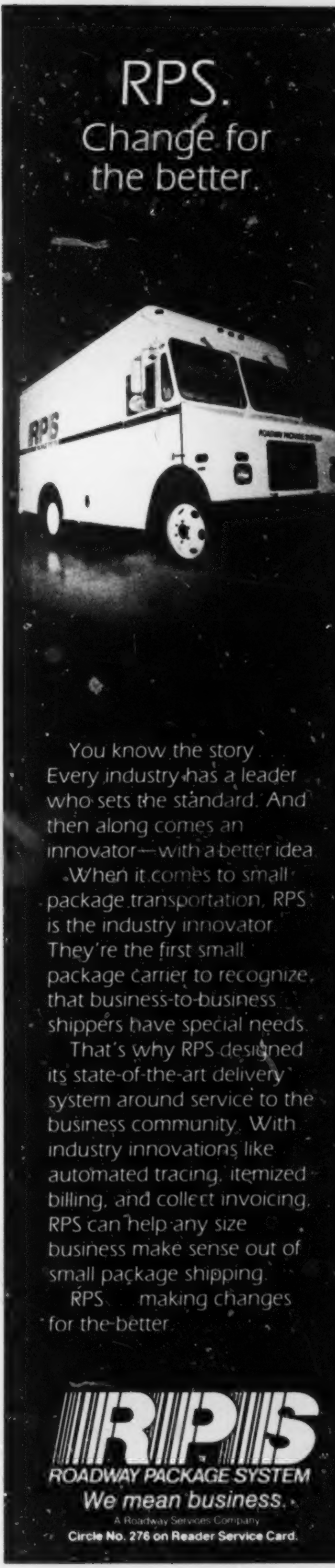
Putting aside the *source* of growth for a minute, we discovered a fascinating characteristic shared by an uncommonly high number of the large businesses that keep growing. To a striking extent, they are companies that are still managed (directly or indirectly) by the entrepreneurs or families who founded them. Digital Equipment, Wang Laboratories, Federal Express, Mrs. Fields Cookies, Compaq Computer, Humana, Wal-Mart Stores, Microsoft, Steelcase, and Bain & Co. are all good examples.

Just as it is sometimes useful to think of a young, growing company as a "large company that happens at the moment to be small," so it now appears wise to think of many successful bigger businesses as "small companies that happen at the moment to be large." The presence (or immediate past presence) of the entrepreneurial founder of a company seems to play a crucial role in the company's ability to climb the corporate ladder rapidly. In each of these instances the entrepreneurial process has remained at work throughout the life of the enterprise, regardless of the enterprise's size. It is a rare case indeed when the "professional management" installed to replace the source of the original concept can sustain that concept, making the exceptions—IBM, L.L. Bean, McDonald's, American Express, and others—all the more interesting.

If large companies grow primarily through the widespread exploitation of a brilliant idea, and if their growth is based, in many cases, on the presence of the source of that idea, we should not be surprised to find that large businesses exhibit many of the same characteristics as small ones. They start, they grow (sometimes erratically), and they fade when the idea has outlived its usefulness.

The lesson? We should not expect of our large corporations that they somehow possess a corporate fountain of youth. We should not mourn the fact that, in the 11 years between 1970 and 1981, 29% of the 1970 *Fortune* 500 companies vanished as companies, and that the "vanishing rate" of a *Fortune* 500 company is only two and a half times less than the vanishing rate of a garage start-up today. We should instead recognize it as part and parcel of the same turbulence that dominates the New Economy in general, and be satisfied that so many of our smaller businesses can so often grow to be big. ☐

David L. Birch is president of Cognetics Inc., in Cambridge, Mass., and director of MIT's Program on Neighborhood and Regional Change.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THE 10TH ANNUAL RANKING OF THE FASTEST-GROWING SMALL PUBLIC COMPANIES

THE INC. 100

For 10 years, founders, companies, and industries have passed from our lists into entrepreneurial lore

BY STEPHEN D. SOLOMON

This is the 10th year we have published our list of the fastest-growing small public companies. When we inaugurated the list in April 1979—in the very first issue of INC.—our intention was to spotlight enterprises writing economic history as it happened.

Many of these companies were less than 10 years old, and were moving so fast that sonic booms might have echoed in their wake. What flowed through their engines wasn't the usual fuel, but an unusually potent mixture made of one part opportunity, one part opportunism. Each company had come into being because someone had recognized a major change in the marketplace and moved quickly to exploit it. We thought that the INC. 100 companies, over time, would provide a map of the major business opportunities created by changes in the U.S. economy.

They have done just that. A tour through our lists shows not just companies but whole industries emerging to exploit changes in technology, demographics, and public policy. Industries such as overnight delivery and day-care centers. Regional airlines and personal computers. The lists also reveal people who later would eclipse Presidential candidates in name recognition: Steven Jobs, Liz Claiborne, and Mitch Kapor. Finally, the lists uncover major growth companies in their early years.

RICHEST OFFICERS
As ranked by *Forbes* in 1987 (in $ mil.):

Roy Speer Home Shopping Network Inc.	$600
A.C. "Mike" Markkula Jr. Apple Computer Inc.	470
Lowell Paxson Home Shopping Network Inc.	385
Philip Knight Nike Inc.	345
Frederick W. Smith Federal Express Corp.	285
Lawrence J. Ellison Oracle Corp.	245

Since 1979, 612 companies have appeared on the INC. 100. They have grown at a compound annual rate of 90%; on average, doubling in size every 56 weeks. The companies on this year's list alone have created nearly 70,000 jobs since 1983, and some grew so quickly that they averaged six new hires *each day*.

The fantastic rates of growth of the INC. 100 might seem a bit surprising, coming as they do during a decade of great turbulence for the American economy. But it's no paradox; turbulence and change present opportunities for those willing to take risks. Many of the nation's largest corporations saw this turbulence as a peril rather than an opportunity, and they reacted defensively, as if they had everything to lose—which, too often, it turned out, they did.

It wasn't always this way. The nation's largest corporations started as fast-moving risk takers, too. But that was yesterday. And so today, lists that rank the largest corporations in America are essentially historical in nature, illuminating achievements of decades past, when railroads, steel, and automobiles made America the world's preeminent industrial power.

But if the INC. 100 chronicles economic history, what does it tell us? The world was different in 1979. U.S. automakers still had a dominant role. Sales for United States Steel Corp. were up by 15% over the previous year. The *Fortune* 500, as a group, had just enjoyed a year of healthy growth: up 12.2% in sales and 17% in profits.

SALES LEADERS
Four of the five all-time sales leaders appear on the 1988 list:

Businessland Inc. $600 mil., 1988
Apple Computer Inc. $583 mil., 1983
Home Shopping Network Inc. $582 mil., 1988
America West Airlines Inc. $575 mil., 1988
Sun Microsystems Inc. $538 mil., 1988

The challenge to big business was coming not only from the rising nations on the Pacific Rim. It was coming also from small, fast-growing companies at home—companies that could move quickly to capitalize on emerging opportunities.

What were those companies? And what were those opportunities? A look through the list, year by year, reveals a portrait of business as a continual act of creation.

When we published our first list in 1979, one of the leading business opportunities was the overnight delivery of business packages. Advances in communications had already accelerated the pulse of business in the '70s, but one major bottleneck remained: there was no good way to get a bundle of documents from one location to another overnight. United Parcel Service Inc. had dominated the delivery industry for several decades, but evidently didn't understand the changing needs of its customers. A 28-year-old pilot named Frederick W. Smith did, and by 1979 he had guided Federal Express Corp. onto the INC. 100. The overnight business he founded is now a $7-billion industry, and Federal Express owns more than half the market.

The 1979 list noted another powerful marketing concept. The real-estate industry had grown up as a fragmented business with thousands of small operators who had no more clout in the marketplace than the corner dry cleaner. Why not convert many of these local businesses into a franchise operation with a national name and the resources to advertise in both the local and national media? Century 21 Real Estate Corp. was the creation of Art Bartlett, who developed his ideas while running a small company that supplied real-estate data to banks.

INC. 100 ALL-STARS

The following companies—all of them computer makers—have appeared on five INC. 100 lists:

- **Cray Research Inc.**
- **Tandem Computers Inc.**
- **Tandon Corp.**
- **NBI Inc.**

In 1980, the INC. 100 pictured two new airlines lifting off the runway. Like the seven others that would appear on our lists in subsequent years, Southwest Airlines Co. and Air Florida System Inc. were offspring of the government's deregulation of the airline industry in 1978. Unfortunately, the resulting business opportunity proved to be short-lived. Many of the industry's more than 100 upstart carriers, including Air Florida, disappeared within a few years; all but a few were bought out or became feeder lines into big-city hubs controlled by the major air carriers.

Large corporations, in fact, routinely prospect among INC. 100 companies, figuring that opportunities missed can be purchased later for cash or stock. Jhirmack Enterprises Inc., a maker of hair-care products, grew at a compound annual rate of 66% between 1975 and '79, earning it a place on the 1980 list. In 1982, International Playtex Inc. bought the company. Such fast-growers as Verbatim (floppy disks) and MetPath (diagnostic laboratories) were also absorbed by large companies.

PRODUCTIVITY LEADER

King World Productions Inc., an entertainment company, is the all-time productivity leader, with $2.57 million in sales per employee in 1988.

In 1981, Cobb Resources Corp. topped our list with a compound annual growth rate of 678%. It wasn't surprising to have a company engaged in mining and oil exploration rise to the top; through the first five years of the list, energy companies accounted for one out of every five INC. 100 businesses. But a crevice was opening in the natural-

10 COMPANIES THAT CHANGED THE WORLD

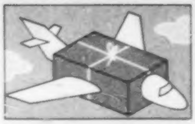
INC. 100 enterprises have introduced products or services that have altered the business landscape in a fundamental way

FEDERAL EXPRESS

INC. 100
1979 #19

	'79 INC. 100	FY '87
NET SALES	$160.3 mil.	$3.2 bil.
NET INCOME	$20 mil.	($65.6 mil.)
EMPLOYEES	5,595	41,000

Federal will route your package through Memphis tonight with some 900,000 others.



	'79 INC. 100	FY '87
NET SALES	$23 mil.	NA
NET INCOME	$3.9 mil.	NA
SALESMEN	55,000	78,000

Century 21 is now a subsidiary of Metropolitan Life Insurance Co.

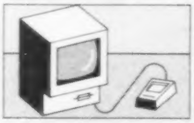
Century 21

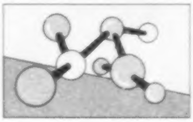
INC. 100
1979 #8

INC. 100
1982 #1; 1983 #5

	'82 INC. 100	FY '87
NET SALES	$334.8 mil.	$2.7 bil.
NET INCOME	$39.4 mil.	$217.5 mil.
EMPLOYEES	2,400	7,927

Apple's John Sculley went after the business market with a powerful Mac.





	'83 INC. 100	FY '87
NET SALES	$32.6 mil.	$230.5 mil.
NET INCOME	$625,000	$42.2 mil.
EMPLOYEES	440	1,465

It may be the only biotech firm with a chance to grow into a major pharmaceutical house.

Genentech, Inc.

Genentech, Inc.

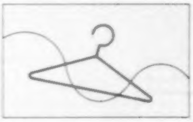
INC. 100
1983 #16; 1984 #62

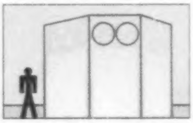
liz claiborne

INC. 100
1982 #36; 1983 #84

	'82 INC. 100	FY '87
NET SALES	$116.8 mil.	$1 bil.
NET INCOME	$10.2 mil.	$114.4 mil.
EMPLOYEES	351	3,600

Liz Claiborne expects future growth to come from its new First Issue retail stores.





	'79 INC. 100	FY '87
NET SALES	$17.2 mil.	$687.3 mil.
NET INCOME	$3.5 mil.	$147 mil.
EMPLOYEES	321	4,308

Cray faces many new competitors, including U.S. start-ups and the Japanese.

CRAY RESEARCH, INC.

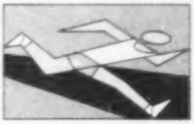
INC. 100
1979 #5; 1980 #2; 1981 #7; 1982 #80; 1983 #74

NIKE

INC. 100
1981 #29

	'81 INC. 100	FY '87
NET SALES	$269.8 mil.	$877.4 mil.
NET INCOME	$12.5 mil.	$35.9 mil.
EMPLOYEES	2,600	3,000

Nike was one of the first to get in on the nation's fitness craze.



	'81 INC. 100	FY '87
NET SALES	$56.6 mil.	$506.6 mil.
NET INCOME	$3.4 mil.	$26.3 mil.
EMPLOYEES	7,200	16,400

The first day-care chain now has space for 120,000 children.

Kinder Care

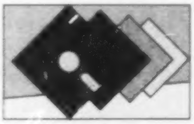
INC. 100
1981 #98

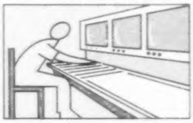
Lotus.

INC. 100
1987 #2

	'87 INC. 100	FY '87
NET SALES	$282.9 mil.	$395.6 mil.
NET INCOME	$48.3 mil.	$72 mil.
EMPLOYEES	1,400	2,200

Its challenge is diversification; Lotus 1-2-3 accounts for an estimated 70% of sales.





	'86 INC. 100	FY '87
NET SALES	$295.6 mil.	$553.7 mil.
NET INCOME	($1.5 mil.)	$28.2 mil.
EMPLOYEES	3,200	4,000

Apollo pioneered the industry's fastest-growing niche, engineering workstations.

apollo

INC. 100
1986 #14; 1987 #62

ILLUSTRATIONS: NIGEL HOLMES

10 COMPANIES THAT DIDN'T CHANGE THE WORLD

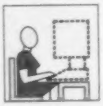
For every Apple Computer Inc. or Federal Express Corp., there are others that ran into problems

Air Florida System Inc.

#14 in 1982
Sales: $304.1 mil.
Net income: ($5.8 mil.)
Chapter 11: 1984

Remarks: Air Florida System was subsequently acquired by Midway Airline Inc. in 1985.

Vector Graphic Inc.



#31 in 1983
Sales: $36.2 mil.
Net income: $2.4 mil.
Chapter 11: 1985

Remarks: Vector Graphic was a pioneer that perceptively targeted its microcomputers toward small-business users. Then it was crushed by the new IBM PC.

Wedtech Corp.

#52 in 1984
Sales: $27 mil.
Net income: $5 mil.
Chapter 11: 1986

Remarks: Thanks to friends in high places, this small machine shop quickly became a large government contractor. Many of those friends have been indicted on charges ranging from bribery to influence-peddling.

Westworld Community Healthcare Inc.

#18 in 1987
Sales: $178 mil.
Net income: ($100,000)
Chapter 11: 1987

Remarks: In attempting to modernize rural hospitals, Westworld came up with an unorthodox billing system. In the process, it confused its banker, angered insurance companies, and—the final blow—got stuck with too many empty beds.

Flight Transportation Corp.

#31 in 1982
Sales: $24.8 mil.
Net income: $2.3 mil.
Receivership: 1982

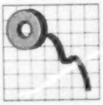
Remarks: Company, what company? As the FBI and SEC discovered, Flight Transportation was not much more than a securities swindle that crashed, leaving a tangle of litigation.

Pysch Systems Inc.

#19 in 1984
Sales: $5.5 mil.
Net income: ($1 mil.)
Chapter 11: 1984

Remarks: The company's minicomputer systems were apparently too pricey for the psychologists and psychiatrists for whom they were designed. Customers were satisfied with less expensive microcomputers.

Chemical Investors Inc.



#18 in 1983
Sales: $36.5 mil.
Net income: $640,000
Out of business: 1983

Remarks: Weak management and an aggressive program of acquisitions left this maker of industrial tape cash poor.

Kelly-Johnston Enterprises Inc.

#69 in 1985
Sales: $94.6 mil.
Net income: ($333,000)
Chapter 11: 1985

Remarks: This fast-food franchisee overestimated the market's capacity for Mexican food.

Pizza Time Theatre Inc.

#17 in 1984
Sales: $165.5 mil.
Net income: ($6 mil.)
Chapter 11: 1984

Remarks: Kids and their parents munched pizza while watching animal robots and playing video games. The games didn't hold their attention, and even the kids realized they were eating cardboard. The company was acquired by Show Business Pizza Place Inc.

Xonics Inc.

#99 in 1983
Sales: $87 mil.
Net income: ($796,000)
Chapter 11: 1984

Remarks: Its technology could detect life-threatening illnesses early, but Xonics didn't foresee coming changes within the medical-imaging industry. Caught unaware, the company was zapped by price-cutting and confusion over Medicare policy.

resources industry, and Cobb fell into it. The price of minerals and then of oil plunged; soon, only Cobb's echo could be heard. Sales dropped from $11 million to $1.7 million in two years.

By 1987, only 4 energy companies had grown fast enough to make the INC. 100, down from 25 in 1982. It wasn't until this year's list, however, that the full scale of the industry's downfall became clear. In 1988, Harken Oil & Gas Inc. claims the #11 spot by growing through a strategy of acquiring faltering oil-and-gas companies. The destruction of the industry as a growth vehicle for other than scavengers is now complete.

Life in the fast lane proved much happier for another company on the 1981 list. With a compound annual growth rate of 109%, Nike Inc. was cashing in on the nation's fitness craze. Its success helped pave the way for other hot, new growth companies in the athletic shoe industry, such as Reebok International Ltd. and Timberland Co.

Another trend lifted Kinder-Care Learning Centers Inc. to the list in 1981, and Liz Claiborne Inc. in 1982. What both of these companies saw were new business opportunities borne by one of the major social phenomena of our time, the rush of women into the workplace. Almost 52 million women claimed paychecks in 1986, up 200% since the end of World War II. That same year, they became the majority of professional employees for the first time, and they started one out of every 3 new companies in the country, compared with one in 10 in 1960.

FOUNDERS' HONOR ROLL

Several founders have guided more than one company onto the 100.

Phillipe Villers
Computervision Corp.
Automatix Inc.

Irwin Selinger
Surgicot Inc.
Patient Technology Inc.

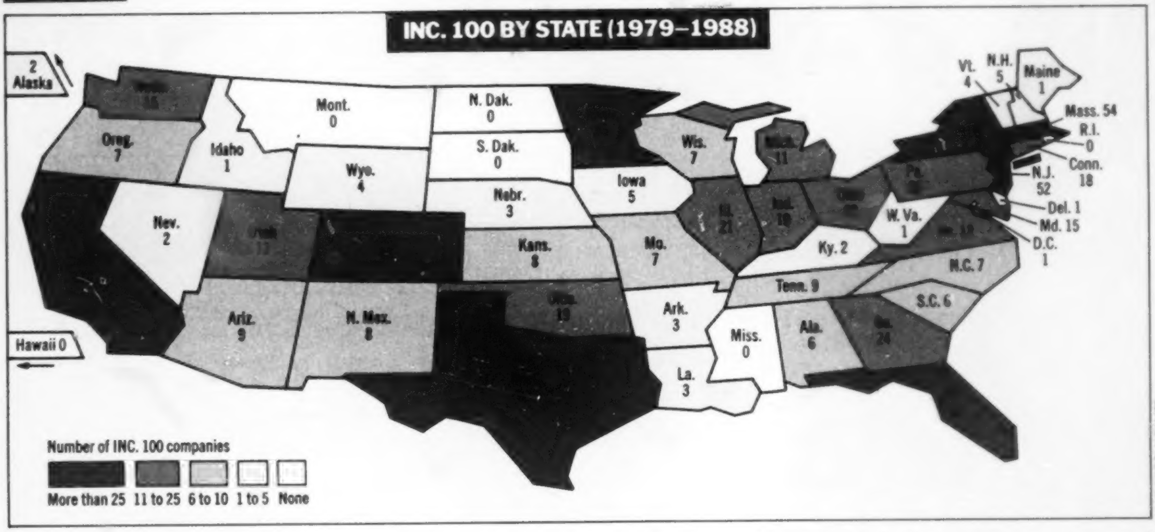
William Poduska
Prime Computer Inc.
Apollo Computer Inc.

What were all these women going to do with their children while they worked? Kinder-Care had the answer: day-care centers with a nationally recognized name. And what clothes were all the professional women going to wear? Liz Claiborne had the answer: stylish, well-made garments at an affordable price.

The 1982 list showcased Apple Computer Inc. as the #1 company. Apple's ascendancy marked the beginning of changes that were to roil the computer industry for the rest of the decade. Before then, the action had been in mainframes and minicomputers, powerful machines that let corporations centralize their computing power. Indeed, the first few INC. lists featured such fast-growing makers of large computers as Amdahl, Prime Computer, Tandem, and Cray Research.

ILLUSTRATIONS: NIGEL HOLMES

INC. 100 BY STATE (1979–1988)



MAP: NIGEL HOLMES

Then came radical miniaturization of processors and memory chips. The computer scientist Christopher Evans calculated how much cheaper and more efficient a car would be if the auto industry had advanced as fast as the computer industry: "Today you would be able to buy a Rolls-Royce for $2.75, it would do 3 million miles to the gallon, and it would deliver enough power to drive the *Queen Elizabeth II*. And if you were interested in miniaturization, you could place half a dozen of them on a pinhead."

This cheap and miniaturized computing power now could be decentralized onto every worker's desk. Apple Computer was the first company to turn the new technology into commercial products. Those who followed—including Apollo Computer Inc. (#62 in 1987) and Sun Microsystems Inc. (#17 this year)—souped up the PC, making a powerful desktop machine.

In 1983, INC. recognized Genentech Inc. as one of the nation's premier growth companies. Its prospects would have been limited had it not challenged the conventional wisdom that it is no longer possible to grow a major pharmaceutical company from scratch. Almost alone among more than 200 biotechnology companies that started up in the past decade, Genentech focused squarely on marketable products rather than basic research and avoided the trap of becoming no more than the R&D arm of an established drug company. Genentech pioneered four of the six biotech products that have received FDA approval.

INC. 100 BY INDUSTRY

The 612 companies that have appeared on our 10 lists break down this way by industry (in percentages)

Computer-related	30
Health & medicine	17
Miscellaneous	17
Oil, gas, & energy-related	14
Consumer goods	6
Communications	5
Food & restaurants	4
Transportation	4
Telecommunications	3

Not all INC. 100 companies, of course, perform ideally. Our 1984 list featured Pizza Time Theatre Inc. (#17), started by Atari Inc. founder Nolan Bushnell, who combined fast-food pizza with children's entertainment provided by goofy costumed characters. Even the kids got tired of the idea. The company filed for Chapter 11 protection from 5,000 creditors who were owed $100 million.

Wedtech Corp. ranked #52 in 1984, two years before it filed for Chapter 11 protection. A military contractor, Wedtech allegedly bribed politicians to obtain government work: when the scandal broke, a handful of them pled guilty. Lyn Nofziger, a former adviser to President Reagan, was convicted under the 1978 Ethics in Government Act, and last year Representative Mario Biaggi (D-N.Y.) was indicted for bribery and racketeering.

A company on the list in 1985 has affected government officials in a more constructive way. Micron Technology Inc., a maker of computer memory chips, was coming off an amazing year in which it posted net income of $29 million on sales of $87.4 million. But the fat times didn't last. Japanese chipmakers flooded the market with memory devices in 1985, and prices plummeted. Micron held on just barely: last year, the company lost $22.9 million on $91.2 million in sales.

Micron Technology chairman Joe Parkinson fought back politically, leading to a trade agreement under which the Japanese agreed to stop selling memory chips below cost. As a result, the Japanese slowed production growth and raised their prices.

The list in 1986 saw two new groups of companies emerge as a result of major changes in the economy. The deregulation of the telecommunications industry and the breakup of AT&T had created growth opportunities for scores of new companies in phone-system design and maintenance. Nine made the list in 1986, more than three times the average of the previous seven years. And the current emphasis on cost containment in health care spawned many enterprises offering outpatient clinics, medical care in the home, and health maintenance organizations.

INC. 100 BY SECTOR

The companies on our lists since 1979 break down this way by sector (in percentages)

Manufacturing	53
Service	32
Mining, oil, & gas	8
Retail	3
Distribution	3
Other	1

Finally, in 1988, the INC. 100 has confirmed that the American pastime has shifted from baseball to discount shopping. Traditional discounters are old hat compared with the new generation of price slashers, many of which specialize in a single line of merchandise, such as consumer electronics. The top three companies in the rankings this year are specialty discounters.

No doubt next year, and the year after, the INC. 100 will continue to spotlight the major growth opportunities in the U.S. economy. That some of the companies will grow into stars in their own right is almost beside the point. The important thing is the principle they illuminate: that business is a continual act of creation that depends upon challenging the conventional wisdom about people, products, and strategy. ☐

Research assistance was provided by Amy Schulman and Pat Cleary.

THE 1988 INC. 100

	Company (1987 Rank)	Sales Growth (1983–87) Percent Increase	Sales Growth (1983–87) Compound Annual Rate	Doubling Time (Weeks)[A]	Sales ($000)		Net Income ($000)		Shareholder Equity ($000)	No. of Employees	
	Business Description (Year Founded)	↓			1987	1983	1987	1983	1987	1987	1983
1.	**ENTERTAINMENT MARKETING** Houston, TX Distr. consumer electronics products (1983)	38,763%	344%	24	$87,831	$226	$3,236	$6	$3,506	175	4
2.	**HOME SHOPPING NETWORK** (10) Clearwater, FL Televised specialty retailer (1982)	15,897	256	28	582,118	3,639	29,528	259	118,215	4,400	30
3.	**WAREHOUSE CLUB** Skokie, IL Operates chain of warehouse stores (1982)	15,469	253	29	228,393	1,467	(6,397)	(762)	13,892	505	100
4.	**CARE PLUS** Miami, FL Provides home health-care svcs. (1983)	13,923	244	29	22,577	161	(2,574)	(567)	12,583	250	40
5.	**DOMAIN TECHNOLOGY** Milpitas, CA Mfrs. & mkts. thin-film disks (1981)	12,002	232	30	43,083	356	1,056	(2,674)	18,098	503	50
6.	**OSICOM TECHNOLOGIES** Rockaway, NJ Distr. value-added peripheral products (1981)	11,040	225	31	31,080[12]	279	365[12]	11	959[12]	140	6
7.	**SAHLEN & ASSOCIATES** Deerfield Beach, FL Provides security svcs. (1981)	10,907	224	31	21,903	199	1,259	(107)	5,551	1,750	8
8.	**GATEWAY COMMUNICATIONS** Irvine, CA Distr. networking & communications products (1981)	10,486	221	31	12,915	122	514	(555)	5,425	76	5
9.	**LINEAR TECHNOLOGY** Milpitas, CA Mfrs. & mkts. linear integrated circuits (1981)	9,960	217	31	35,211	350	6,110	(5,759)	38,328	335	40
10.	**VIPONT PHARMACEUTICALS** Fort Collins, CO Mfrs. & researches oral hygiene products (1968)	8,670	206	32	22,889	261	3.113	(434)	13,379	83	4
11.	**HARKEN OIL & GAS** Bedford, TX Sells & distr. gas & petroleum products (1977)	8,178	202	33	421,000[C]	5,086	2,637[B]	(1,526)	70,000[C]	350	37
12.	**BONNEVILLE PACIFIC** (7) Salt Lake City, UT Develops power facilities (1980)	7,697	197	33	36,722[B]	471	5,031[B]	111	24,111	45	9
13.	**EXCELAN** San Jose, CA Mfrs. local area network products (1982)	7,357	194	33	38,999	523	4,079	(1,601)	31,944	193	40
14.	**NATIONAL HEALTHCARE** (5) Atlanta, GA Provides rural health-care svcs. (1981)	7,209	192	34	249,969	3,420	(24,788)	(817)	30,563	3,960	100
15.	**GENERAL PARAMETRICS** Berkeley, CA Mfrs. graphic presentation products (1981)	7,060	191	34	22,839	319	3,604	(96)	23,492	122	14
16.	**ENCORE COMPUTER** Marlborough, MA Mfrs. computer products (1983)	7,018	190	34	16,727	235	(5,900)	(600)	6,316	233	5
17.	**SUN MICROSYSTEMS** Mountain View, CA Supplies distributed computing systs. (1982)	6,109	181	35	537,537	8.657	36,298	654	240,734	4,182	130
18.	**BALLARD MEDICAL PRODUCTS** (26) Midvale, UT Mfrs. disposable medical products (1978)	6,070	180	35	9,748	158	1,555	(759)	5,699	203	29
19.	**CATALYST ENERGY** (1) New York, NY Independent power producer (1982)	5,850	178	35	411,000[C]	6,908	5,714	146	162,593[D]	760	6
20.	**BUSINESSLAND** San Jose, CA Provides bus. automation marketing svcs. (1982)	5,838	178	35	600,039	10,105	8,370	(1,181)	96,974	2,030	179
21.	**TELEMATICS INTERNATIONAL** Fort Lauderdale, FL Mfrs. & mkts. hardware & software products (1982)	5,564	174	36	43,446	767	7,873	(2,765)	55,860	310	49
22.	**SAMNA** Atlanta, GA Mfrs. word-processing programs (1982)	5,423	173	36	11,709	212	1,848	(429)	7,500[C]	130	15
23.	**SYSTEM SOFTWARE ASSOCIATES** Chicago, IL Develops & mkts. bus. applications software (1981)	4,998	167	37	30,893	606	3,302	33	19,818	246	12
24.	**INTERSPEC** Conshohocken, PA Mfrs. ultrasound systs. & related supplies (1979)	4,981	167	37	32,009	630	3,315	(1,385)	21,200	257	40
25.	**NEW WORLD PICTURES** Los Angeles, CA Produces motion pictures & TV programs (1983)	4,715	163	37	404,459[1]	8,400	617[9]	(4,746)	53,295[9]	650	NA

CHARTS TYPESET BY B.P.E. GRAPHICS

	Company (1987 Rank) Business Description (Year Founded)	Percent Increase	Sales Growth (1983–87) Compound Annual Rate	Doubling Time (Weeks)[d]	Sales ($000) 1987	Sales ($000) 1983	Net Income ($000) 1987	Net Income ($000) 1983	Shareholder Equity ($000) 1987	No. of Employees 1987	No. of Employees 1983
26.	**EXPEDITORS INTERNATIONAL** (22) Seattle, WA Provides int'l air-freight forwarding svcs. (1979)	4,152%	155%	38	$146,823	$3,453	$5,843	$952	$27,171	425	115
27.	**SIGMA DESIGNS** Fremont, CA Mfrs. & mkts. IBM-enhancement products (1982)	4,111	155	39	28,006	665	2,522	51	9,618	82	8
28.	**DATAREX** Buffalo, NY Distr. computer & word-processing supplies (1982)	4,088	154	39	43,935	1,049	1,076	10	6,235	109	8
29.	**SECURITY TAG SYSTEMS** St. Petersburg, FL Develops & mkts. clothing security systs. (1981)	3,942	152	39	5,295	131	(306)	(675)	7,311	100	29
30.	**ROSS STORES** (58) Newark, CA Operates off-price retail stores (1957)	3,854	151	39	534,413	13,517	(41,449)	(67)	84,945	5,000	470
31.	**CONTINUING CARE** Canton, MA Mkts. home health-care equipment (1982)	3,814	150	39	20,706[f]	529	(178)[g]	(214)	1,658[g]	215	20
32.	**MICROAGE** Tempe, AZ Franchises computer stores (1976)	3,725	149	40	203,018	5,307	3,500	(489)	19,397	287	36
33.	**NU MED** Encino, CA Provides health-care svcs. (1977)	3,630	147	40	391,762	10,504	4,360	586	51,338	5,200	1769
34.	**BARRIS INDUSTRIES** Beverly Hills, CA Develops & produces TV programs (1968)	3,591	146	40	63,449	1,719	15,205	1,084	44,490	90	15
35.	**ACUSON** Mountain View, CA Mfrs. & mkts. diagnostic imaging systs. (1979)	3,552	146	40	105,566	2,891	16,790	(5,575)	70,587	623	70
36.	**LE PEEP RESTAURANTS** Syosset, NY Owns & operates restaurants (1981)	3,471	144	40	13,500[c]	378	(2,808)[g]	(1,164)	1,898[c]	650	35
37.	**AMERICAN CITY BUS. JRNLS.** (11) Kansas City, MO Publishes regional bus. journals (1982)	3,381	143	41	76,000[c]	2,183	(12,057)[g]	(1,537)	34,943[g]	1,250	100
38.	**INTELLICORP** Mountain View, CA Develops & mkts. computer software (1980)	3,379	143	41	20,352	585	(3,987)	(730)	27,764	223	40
39.	**HMSS** Houston, TX Provides home infusion therapies (1982)	3,242	140	41	16,543	495	2,138	(538)	19,758	172	5
40.	**FIRST WORLD CHEESE** South Orange, NJ Develops, mkts., & distr. specialty cheeses (1983)	3,166	139	41	29,488	903	530	(224)	1,379	190	3
41.	**NOVELL** Provo, UT Mfrs. & mkts. local area network products (1980)	3,122	138	42	182,800	5,673	20,338	(1,334)	101,249	1,100	14
42.	**AMERICA WEST AIRLINES** Tempe, AZ Operates regional airline (1981)	3,068	137	42	575,447	18,166	(45,675)	(6,454)	45,870	7,000	806
43.	**TRIMEDYNE** Santa Ana, CA Develops & mfrs. fiber-optic laser catheters (1980)	3,054	137	42	12,334	391	494	(1,104)	9,348	151	7
44.	**TECH DATA** (78) Clearwater, FL Distr. computer-related hardware (1974)	3,030	137	42	71,519	2,285	1,983	27	10,810	163	15
45.	**KING WORLD PRODUCTIONS** (35) Summit, NJ Distr. & syndicates TV programs (1964)	2,990	136	42	241,306	7,808	33,981	649	39,233	94	15
46.	**ECAD** Santa Clara, CA Develops & mkts. engineering software (1982)	2,945	135	42	23,900	785	3,164	16	25,173	185	20
47.	**UNITED HEALTHCARE** (57) Minnetonka, MN Develops & mkts. health-care delivery systs. (1977)	2,930	135	42	440,035	14,524	(15,801)	(192)	41,523	2,969	175
48.	**INTELLIGENT ELECTRONICS** Exton, PA Mkts. microcomputer systs. & products (1982)	2,895	134[a]	42	80,877	2,700	2,237	(1,273)	14,475	35	69
49.	**TCBY ENTERPRISES** (52) Little Rock, AR Franchisor of frozen yogurt (1981)	2,865	133	43	69,183	2,333	13,012	226	49,688	395	40
50.	**ADVANCED MARKETING SERVICES** San Diego, CA Supplies books to membership clubs (1982)	2,861	133	43	70,329	2,375	1,619	70	21,351	133	9

	Company (1987 Rank) Business Description (Year Founded)	Percent Increase	Sales Growth (1983–87) Compound Annual Rate	Doubling Time (Weeks)[a]	Sales ($000) 1987	Sales ($000) 1983	Net Income ($000) 1987	Net Income ($000) 1983	Shareholder Equity ($000) 1987	No. of Employees 1987	No. of Employees 1983
51.	**CANTERBURY EDUCATIONAL SVCS.** Medford, NJ Designs & presents seminars & courses (1981)	2,850%	133%	43	$5,457	$185	$202	($23)	$1,667	200	5
52.	**MASSACHUSETTS COMPUTER** Westford, MA Mfrs. & sells computer systs. (1982)	2,794	132	43	74,660	2,580	6,289	(3,088)	56,920	675	100
53.	**INTERMARK GAMING INT'L** Phoenix, AZ Mfrs. & mkts. gaming devices (1979)	2,774	132	43	7,500[c]	261	623[g]	(87)	5,295[g]	67	2
54.	**LANDMARK AMERICAN** Marietta, GA Provides historic rehabilitation svcs. (1978)	2,745	131	43	21,107	742	4,045	344	13,789	35	6
55.	**COM SYSTEMS** Van Nuys, CA Provides long-distance & operator svcs. (1975)	2,656	129	43	39,[illegible]00[c]	1,433	1,700[c]	(1,234)	(4,570)[c]	298	85
56.	**ORACLE** (60) Belmont, CA Develops & mkts. software products (1977)	2,506	126	44	131,271	5,037	15,623	658	82,656	1,100	46
57.	**AUTOSPA** (83) Great Neck, NY Franchises auto maintenance svcs. (1980)	2,395	123	45	5,139	206	932	(228)	5,361	113	6
58.	**MODULAR TECHNOLOGY** Deerfield, IL Mfrs. & mkts. modular structures (1982)	2,387	123	45	30,860	1,241	(4,323)	(570)	7,872	325	100
59.	**MESA AIRLINES** Farmington, NM Operates commuter airline (1979)	2,364	123	45	14,338	584	790	26	7,373	242	38
60.	**CERNER** (99) Kansas City, MO Designs & mkts. information systs. (1980)	2,347	122	45	33,595	1,373	4,025	(715)	20,588	219	28
61.	**BEST BUY** Minneapolis, MN Sells consumer products & appliances (1966)	2,327	122	45	239,496	9,867	7,742	88	55,747	2,200	90
62.	**BAKER COMMUN.** Rolling Hills Estates, CA Publishes local newspapers (1983)	2,325	122	45	4,486[f]	185	(380)[g]	(332)	558[g]	68	11
63.	**NEECO** Canton, MA Mkts. personal computer systs. & products (1977)	2,264	121	46	59,311	2,509	2,209	65	29,146	213	20
64.	**MICROCOM** Norwood, MA Mfrs. & mkts. data-communications equip. (1980)	2,252	120	46	25,002	1,063	3,173	(1,688)	10,210	225	50
65.	**3COM** (38) Santa Clara, CA Mfrs. local area network systs. (1979)	2,225	120	46	110,377	4,747	11,146	15	76,352	552	48
66.	**INSITUFORM SOUTHEAST** (27) Jacksonville, FL Constructs & repairs sewers & pipelines (1981)	2,222	120	46	9,079	391	670	(609)	8,015	100	19
67.	**AMGEN** Thousand Oaks, CA Develops chemical products (1980)	2,198	119	46	34,722	1,511	1,137	(7,079)	83,959	265	95
68.	**JACOR COMMUNICATIONS** (72) Cincinnati, OH Owns & operates radio stations (1979)	2,117	117	47	43,972	1,983	(3,345)	(564)	20,782	375	51
69.	**CLEAN HARBORS** Braintree, MA Provides waste-management svcs. (1980)	2,111	117	47	46,723	2,113	1,716	18	3,455	375	25
70.	**CALGENE** (87) Davis, CA Provides agricultural biotechnology research (1980)	2,040	115	47	22,430	1,048	237	(1,940)	38,373	205	71
71.	**SURGICAL CARE AFFILIATES** Nashville, TN Provides outpatient health-delivery svcs. (1982)	1,975	113	48	35,049	1,689	1,959	(550)	18,297	500	75
72.	**IMPACT SYSTEMS** San Jose, CA Mfrs. paper-production control systs. (1980)	1,957	113	48	23,405	1,138	2,105	(1,790)	20,653	170	35
73.	**PLANT GENETICS** Davis, CA Provides plant biotechnology research (1981)	1,941	113	48	4,836	237	(2,821)	(1,755)	9,840	62	40
74.	**PRICE COMMUNICATIONS** (8) New York, NY Owns radio & TV stations & newspapers (1979)	1,930	112	48	104,798[f]	5,163	2,626[g]	(644)	(68,922)[g]	1,000	120
75.	**NU HORIZONS ELECTRONICS** Amityville, NY Distr. electronics components (1982)	1,859	110	48	18,223	930	477	52	4,144	78	22

Company (1987 Rank) Business Description (Year Founded)	Percent Increase	Sales Growth (1983–87) Compound Annual Rate	Doubling Time (Weeks)[d]	Sales ($000)		Net Income ($000)		Shareholder Equity ($000)	No. of Employees	
				1987	1983	1987	1983	1987	1987	1983
76. SOONER DEFENSE OF FLORIDA Lakeland, FL Mfrs. defense weapons (1982)	1,859%	110%	48	$18,215	$930	($2,345)	$32	$8,499	527	18
77. EMC (68) Hopkinton, MA Mfrs. computer products (1979)	1,805	109	49	127,066	6,670	28,241	919	123,439	700	17
78. CONSOLIDATED STORES (80) Columbus, OH Operates closeout retail stores (1967)	1,803	109	49	397,221	20,874	19,459	2,725	114,295	8,100	650
79. INTEGRATED DEVICE TECH. Santa Clara, CA Designs & mfrs. integrated circuits (1980)	1,800	109	49	77,807	4,096	2,565	(4,684)	71,792	862	128
80. INFORMIX (42) Menlo Park, CA Designs database mgmt. software (1980)	1,799	109	49	41,616	2,192	5,941	169	43,814	400	214
81. DIAGONAL DATA Lakeland, FL Mfrs. computer software (1981)	1,747	107	49	4,875	264	525[c]	3	1,250	85	3
82. BRENTWOOD INSTRUMENTS (46) Torrance, CA Mfrs. & sells medical testing equipment (1977)	1,744	107	49	12,855	697	(739)	(30)	4,939	42	9
83. PATTEN Stamford, VT Buys & sells rural properties (1966)	1,744	107	49	81,630	4,426	9,355	386	57,828	300	25
84. AMRE Irving, TX Provides direct consumer marketing svcs. (1980)	1,686	106	50	77,955	4,364	3,400	(27)	17,663	664	45
85. MANUFACTURED HOMES (89) Winston-Salem, NC Sells manufactured homes (1968)	1,629	104	51	190,000[c]	10,986	5,843[g]	537	20,354[g]	2,500	12
86. BEN & JERRY'S HOMEMADE (66) Waterbury, VT Mfrs. & sells ice cream (1978)	1,608	103	51	31,000[c]	1,815	1,254[g]	57	9,034[g]	180	30
87. HEALTHWAYS SYSTEMS Woodcliff Lakes, NJ Prepaid health-care delivery (1981)	1,602	103	51	48,309	2,838	(671)	(416)	6,280	242	40
88. AST RESEARCH (6) Irvine, CA Designs & mfrs. PC accessories (1980)	1,522	101	52	205,962	12,701	13,032	1,605	99,146	1,358	135
89. BIO-LOGIC SYSTEMS (31) Mundelein, IL Mfrs. & mkts. neurodiagnostic instruments (1979)	1,485	100	52	7,085	447	860	(11)	6,783	67	6
90. L.A. GEAR Los Angeles, CA Develops & mkts. athletic & leisure footwear (1982)	1,472	99	52	70,575	4,489	4,371	80	22,119	220	30
91. UNIVERSITY GENETICS Westport, CT Provides genetic & biotechnology research (1980)	1,467	99	52	4,355	278	(3,124)	0	4,016	59	NA
92. BIO-TECHNOLOGY GENERAL New York, NY Mfrs. health-care products (1980)	1,434	98	53	4,800[c]	313	(5,000)[c]	(4,195)	0[c]	130	95
93. N. ATLANTIC TECHNOLOGIES Minneapolis, MN Dvlps., mfrs., & mkts. heat-recovery systs. (1980)	1,410	97	53	3,700[c]	245	0[c]	(611)	(140)[c]	40	5
94. STAFF BUILDERS Lake Success, NY Provides temporary medical personnel (1978)	1,399	97	53	95,160	6,348	1,700	50	38,115	900	35
95. CODE-ALARM Madison Heights, MI Mfrs. & mkts. auto security systs. (1979)	1,383	96	53	12,903[c]	870	990[c]	53	15,305[g]	152	22
96. VESTAR Pasadena, CA Develops liposomes as drug-delivery systs. (1981)	1,358	95	54	2,246	154	(3,839)	(720)	18,904	50	23
97. V-BAND SYSTEMS (73) Yonkers, NY Mfrs. & distr. specialized telephone equip. (1977)	1,354	95	54	54,019	3,715	22,545	489	48,475	265	25
98. PC QUOTE Chicago, IL Provides security quotes to brokers (1980)	1,306	94	55	6,200[f]	441	(356)[g]	(291)	3,482[g]	55	6
99. VIVIGEN Santa Fe, NM Operates fetal cell analysis laboratory (1981)	1,293	93	55	3,955	284	660	(299)	2,132	72	10
100. P.A.M. TRANSPORTATION SERVICES Tontitown, AR Provides trucking svcs. (1981)	1,235	91	56	68,700	5,145	2,554	410	21,103	1,100	74

THE INC. 100 PORTFOLIO

The numbers don't tell it all. Behind every fast-growing company is a winning strategy and the person who devised it

BY JOSHUA HYATT

HE GETS NO RESPECT

But $78 million in sales and a listing on the New York Stock Exchange are helping

OK, so every entrepreneur is discouraged from going into business. But Steve Bedowitz is a special case. In 1980, when he told his wife he was launching Amre Inc. (#84), she glared at him and shouted, "What am I going to tell my friends?" Apparently, not much. "That is one of the reasons she is now my *ex*-wife," says Bedowitz.

CEO Steve Bedowitz of Amre Inc.

Even after an image upgrade, the 'tinman' stereotype turns off many prospective employees.

But she wasn't his only detractor—not by a long shot. Even today, having built a $78-million company, Bedowitz has trouble convincing potential employees to take him seriously. "I'll talk to them about the business," he reports, "and they'll laugh at me and run away."

What exactly is *the business*? Bedowitz is a modern "tinman," heir to a sleazy tradition of salesmanship that started with aluminum siding in the 1950s and continued with vinyl siding about a decade later. "This industry has not attracted businessmen," he notes dryly.

Bedowitz was running an ad agency when he first discovered the industry. Through his work for a client, a siding distributor, he learned about what was then a $4-billion industry. Using what he considered sophisticated marketing techniques, he figured he could do pretty well.

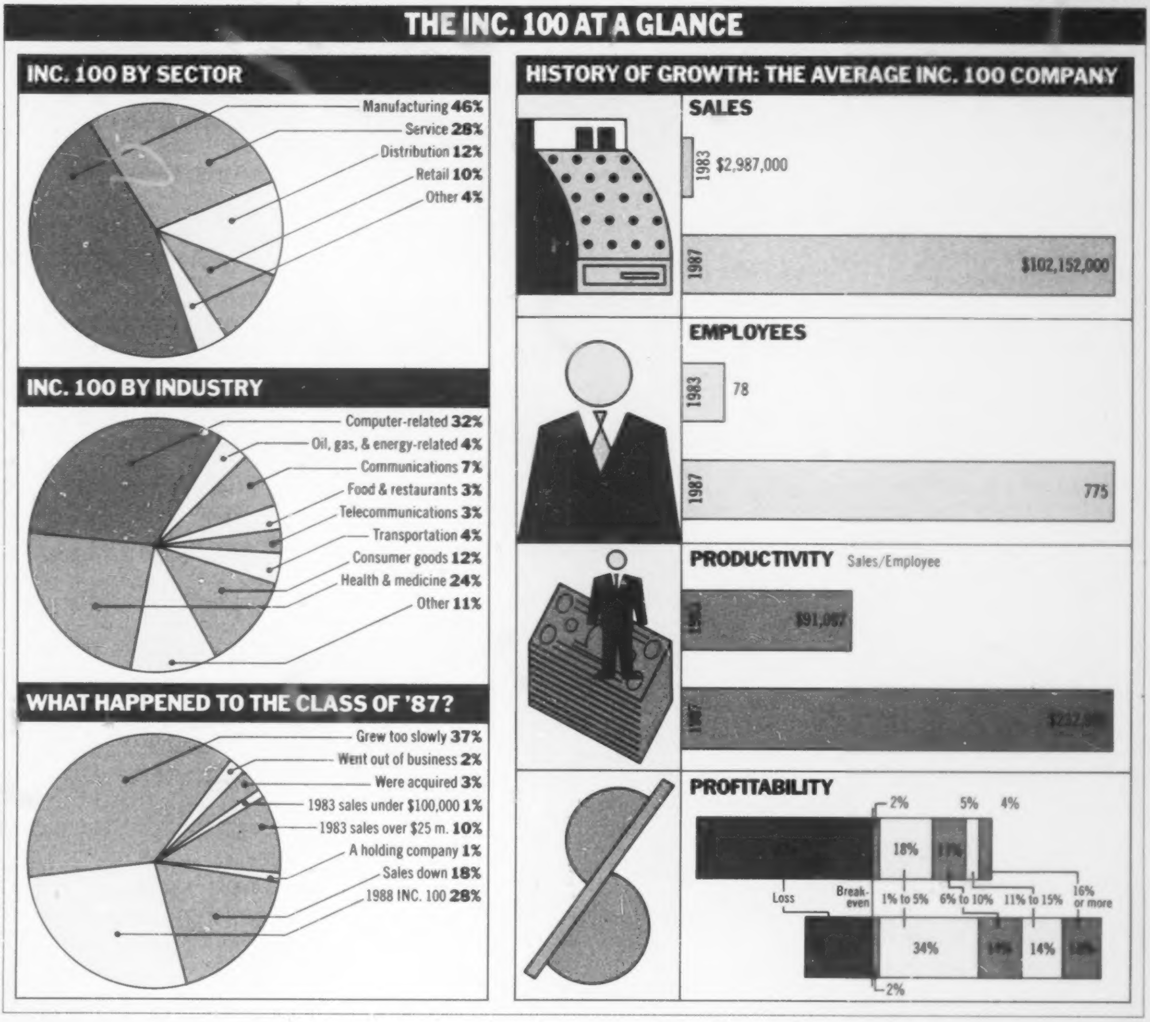
Attracting top employees has always been his biggest problem. Bedowitz leased a storefront at a local mall so that "they could see I wasn't working out of my garage," he says. Within a few months, he signed on as a siding licensee for Sears, Roebuck & Co. in the Austin region. "Their name has given us a lot of credibility," says Bedowitz, who sells nearly all of his siding under the Sears name.

Internally, Bedowitz puts salespeople through two weeks of intensive training. Leads are generated by analyzing such data as census reports, property-owner rolls, and direct-mail responses. Amre also uses proprietary software to monitor nearly every aspect of each salesperson's performance, such as cancellation rates and sales as a percentage of appointments. Top performers earn more than $100,000 a year.

Still, Bedowitz is perpetually short on candidates. Last year, he decided to have Amre listed on the New York Stock Exchange. That has helped some. "They hear siding and step back," he says. "Then they hear New York Stock Exchange and they step forward. It's a struggle." ☐

PHOTOGRAPH: JEFF BAKER

THE INC. 100 AT A GLANCE



CHARTS: NIGEL HOLMES

BRUSH WITH GREATNESS

What Vipont Pharmaceutical's 'celebrity' board members have in common

Barry Goldwater can be pretty tough on himself. "I don't profess to have any skills that a company would be interested in," confesses the former Arizona senator. "But I've got damn good teeth."

Still, Goldwater is no neophyte when it comes to periodontal disease. "My friends all have gum problems," he notes. Which helps explain why he—along with a Nobel Laureate and a former FDA commissioner—is sitting on the board of the research subsidiary of Vipont Pharmaceutical Inc. (#10), which focuses on gum disease. "He has tremendous political contacts, and his name is known internationally," says Lawrence L. Frederick, Vipont's chief executive officer.

Then again, great contacts are practically prerequisites for joining the company's board. Vipont, which sold nearly $23 million worth of toothpaste and mouthwash last year, recruited such formidable talent through its officers' network of acquaintances.

Jere E. Goyan, FDA commissioner from 1979 to 1981, is advising the company on preparing its product for FDA approval. "I've always had some periodontal disease," admits Goyan. "The day they asked me to join the board happened to be the day that I was having my teeth cleaned. They made a case they had something that might work."

Nor is Bruce Merrifield's interest purely academic. Merrifield, who won the Nobel Prize for chemistry four years ago, is helping Vipont untangle the mysteries of polymers. He has accepted only one other board seat. "You worry that some unscrupulous outfit will misuse your name if you agree to join," he says. "But when I saw their list of potential board members, I felt it would be a good experience." □

Vipont Pharmaceutical's Barry Goldwater
A company that attracts big names to its board

PHOTOGRAPH: DON B. STEVENSON

NICE GIRLS DON'T EXPLODE

Some entertainment companies will do anything for a little attention

If the headline above did indeed get your attention, then Rusty Citron has done his job.

As senior vice-president of publicity and promotion at New World Pictures Ltd. (#25), Citron will use just about any ploy he can imagine—from film titles like the one above to stunts like burying a woman alive—to get attention. "We are rediscovering the lost art of publicity," says Citron.

That may be the only art evident at New World, where most of the movies, such as *Reform School Girls* and *Godzilla 1985,* are not the stuff of Academy Awards.

Still, New World, which posted sales of $404 million last year, competes with such major studios as Warner Bros. It spends, on average, about $4 million on production costs for every film, compared with the $14 million that big studios shell out. And its promotion budget, which can be as little as $100,000 per picture, is about 40% lower than its competitors. That rules out such standard industry practices as national television campaigns and press junkets.

Knock-'em-dead publicity
'A lost art,' says vice-president Citron.

All of which explains why Citron and his eight-person staff try to come up with a "singular and cost-efficient approach" for publicizing each movie. They usually succeed.

Take *Vamp,* for instance. To promote this graveyard epic, New World decided to bury a woman alive for two days. After choosing a volunteer through a newspaper ad, they put her in a coffin and buried her under two tons of dirt on Hollywood Boulevard. During the 48 hours, she was on view through a glass window and gave telephone interviews to radio stations. "I was nervous," admits Citron. "But I'll bet we generated $1 million worth of free radio time."

For *House II: The Second Story,* the company hired three mediums to contact the spirit of Harry Houdini, the legendary escape artist. They held hands, burned incense, chanted, and even brought along some of Houdini's possessions. Nothing otherworldly happened, but never mind. "Harry didn't make it," says Citron. "But the TV stations did."

Finally, there was Citron's masterful stunt for *Nice Girls Don't Explode.* When the movie opened at a Kansas City, Kans., drive-in in March 1987, New World chose a female volunteer, handcuffed her, wrapped her in 50 feet of welded link chain, and placed her in a balsa-wood box. Then the box was surrounded by plastic explosives, which went off after 60 seconds. Did she survive the blast? "I think so," replies Citron. "Although, come to think of it, I haven't heard from her since." ☐

HITTING THE TRAIL

For George W. Bush, a Presidential campaign may be more secure than the oil industry

George W. Bush is used to disappointment. Every time he makes an appearance, it seems, someone walks up to him and charges, "You're not the *real* George Bush." But as the eldest son of the man he calls "our future President," he may be the next best thing.

George W. Bush of Harken Oil & Gas
Falling oil prices shattered his dream.

Still, Bush will probably never be mistaken for his famous father in one place: the Texas oil patch. It was there that the elder Bush made his fortune by founding Zapata Offshore Corp. In 1966, he took up politics and sold his stock in the company for just over $1 million. Had the younger Bush been as successful, he wouldn't now be sitting on the board of Harken Oil & Gas Inc. (#11), where he also serves as a consultant.

A famous name isn't much help in an industry rife with bankruptcies. The collapse of oil prices has created a buyer's market for such energy concerns as contract drillers and exploration companies. So far, Harken has merged a dozen failing concerns into a $421-million business. "These are distress situations, close to bankruptcy," says Mikel Faulkner, president and chief executive officer. "An awful lot of folks want to sell."

Among them Bush, who founded the predecessor to his Spectrum 7 Energy Corp. shortly after graduating from Harvard Business School in 1975. The company raised capital for finding and drilling new wells. But its prospects for outside capital completely dried up in 1986, when oil prices dropped about 50% during a six-month period. "We probably could have survived, but at best we would be treading water," admits Bush, 41, who made a failed bid for Congress in 1978.

After merging the company with Harken, Bush stayed to make sure his 16 employees found jobs. But, he discovered, "there's room for only one CEO. Initially, that was painful." With his dad's campaign heating up, Bush signed on as an adviser. "I like the candidate," he says. "And I believe in him." ☐

ATTENTION, K MART SHOPPERS

A new generation of retailers is underpricing the discounters

Those K mart shoppers addressed above are looking at a wider assortment of merchandise than ever, but they're paying the price for it. Increased overhead and higher prices help explain the reemergence of discounters offering a narrow range of brand-name products priced at least 30% less.

Seven of the fastest-growing public companies—including the top three—are profiting from the specialized-discounting boom. Searching for a VCR? Visit a Best Buy Co. outlet (#61). A blouse? Scan the racks at Ross Stores Inc. (#30). A porcelain figurine? Flip the channel to Home Shopping Network Inc. (#2). That discounted book you bought may have come through Advanced Marketing Services Inc. (#50).

Pioneers like K mart have grown to the point where they can maintain their margins only by upping price tags on brand names or stocking cheaper off brands. "These retailers are taking the hottest item in a category, or a hot category, and running with it," says Dennis Lamm, president of Entertainment Marketing Inc. (#1), which supplies home electronics and computer peripherals to discounters. There's no impending shortage of bargain hunters. ☐

PHOTOGRAPHS: LEFT, JEFFERY MACMILLAN; TOP, JEFF SLOCOMB

IS THERE A PATIENT IN THE HOUSE?

Keeping sick people out of the hospital is a healthy, growing business

R. Dale Ross isn't a doctor, but he talks like one. "I see none of the symptoms of maturity," says the chief executive officer of HMSS Inc. (#39), which provides home intravenous therapies. "But within a couple of years, those symptoms will emerge. We'll see more price sensitivity and more competition. This is still an infant industry."

Ross isn't the only one doting on this infant. The push toward outpatient and home health care is rising faster than a fever in flu season. That has given a booster to five companies on this year's INC. 100, each of which has tied its fortunes to keeping sick people out of hospitals. Continuing Care Associates Inc. (#31), for instance, rents and sells such equipment as wheelchairs and respiratory aids for home use. And a major portion of business at Staff Builders Inc. (#94) is providing personnel, including nurses and medical social workers, for home care.

Nurse for Care Plus
Treatments at home

All of these companies spring from the same opportunity. "The reason we're here is because government and industry made up their minds that the cost of health care was rising too high," says Joel C. Gordon, chairman and CEO of Surgical Care Affiliates Inc. (#71), operator of outpatient surgical centers. In the early '80s, the government instituted a new system of medical reimbursement that encouraged hospitals to discharge patients quickly. Then businesses clamped down on spiraling health insurance costs.

Because of advances in anesthesia and surgical procedures, many patients can head home within a few hours of surgery. And the miniaturization of pumps, for instance, has made various home treatments possible. "Technology is making home health care a cost-efficient option," notes Bob L. Wood, CEO of Care Plus Inc. (#4), a provider of infusion therapies in the home.

In fact, an aging population should mean healthy growth for the entire industry. According to the U.S. Bureau of Census, the over-65 age group will nearly double as a percentage of total population over the next 40 years. "The average age is getting older," adds Wood. "That means strong projections for us." □

LINE ITEMS

■ Following revelations that the Soviets had placed listening devices in the walls of the new American Embassy in Moscow, Sahlen & Associates Inc. (#7) was hired to recruit and train guards for the construction site.

■ Talk about putting your assets out of the reach of creditors: the cofounder of Interspec Inc. (#24), Edward Ray, managed the effort to build a nuclear-power supply for use on the moon by the Apollo astronauts. Half a dozen of the power units are still on the moon.

■ If you watched the closing ceremonies of the 1984 Summer Olympic Games in Los Angeles, you saw a laser show put on by a subsidiary of Trimedyne Inc. (#43), which manufactures lasers used in surgery.

■ After putting aside sculpture in favor of business, John Kuhns, CEO of Catalyst Energy Corp. (#19), is returning to his first love. He's converting a nineteenth-century carriage house on his Connecticut farm into a studio for his artwork.

■ Women are rare in the top management ranks of INC. 100 companies, but not so at Intelligent Electronics Inc. (#48). The marketer of computer systems has women serving as treasurer, national sales manager, legal counsel, controller, purchasing manager—and warehouse manager.

■ . . . And Surgical Care Affiliates (#71) has a nun on its board of directors.

■ Ben & Jerry's Homemade Inc. (#86), of Waterbury, Vt., which makes premium ice cream, is working on establishing its first retail outlet in Moscow. Profits would help finance cultural exchanges between students from the United States and the Soviet Union.

■ Consolidated Stores Corp. (#78), a closeout retailer, liquidated more than 5 million Rubik's Cubes when the fad died; now, the company is selling off Cabbage Patch Kids at fire-sale prices.

■ The entire corporate staff of Modular Technology Inc. (#58), overseeing $31 million in sales, consists of CEO Frederick Goldberger, a financial officer, and a secretary.

■ In 1980, Roger J. Sippl started Informix (#80) with a $20,000 equity investment from a banker, Elizabeth Salmon. In 1982, they married.

■ To get exercise and reduce tension on the job, Lawrence J. Ellison, CEO of Oracle Corp. (#56), occasionally pedals the 24-mile round-trip to and from the office on his bicycle.

■ Don't pick a fight with Stanton M. Pikus, CEO of Canterbury Educational Services (#51). He holds a black belt in Japanese karate, and is an instructor as well.

■ Hawaii, Montana, Mississippi, North Dakota, South Dakota, and Rhode Island are the only states in the country that have never been home to an INC. 100 company.

■ Asked in February who they would like to see as President, of the 86 INC. 100 CEOs who responded, 30% favored Robert Dole and 27% George Bush. Democratic candidates together attracted only 6% of the growth vote.

■ Some 55% of responding INC. 100 CEOs do not expect the nation to experience a recession this year or next.

■ Although Intermark Gaming International Inc. (#53) sells slot machines and other equipment to casinos, president John L. Walsh says he doesn't gamble.

■ Most INC. 100 CEOs are American-born, but a handful are immigrants from Iran, India, Pakistan, and Vietnam.

Research assistance was provided by Connie Ahlstrom and Paul Thomas.

WAKE-UP CALL

EMC Corp.'s new incentive plan has its engineers burning the midnight oil

Norman Lourie asleep may come up with better ideas than most people do awake.

One morning a couple of years back, Lourie, the senior vice-president of engineering at EMC Corp. (#77) awoke with a solution to a serious problem plaguing the Hopkinton, Mass., company, which designs and manufactures computer-enhancement devices. Half of its projects were running late, which is a disastrous situation in an industry in which market windows aren't open very long.

EMC's executive staff struggled to come up with a meaningful incentive. Should they tie on-time performance to company profitability? That seemed too removed from individual projects.

Vice-president Norman Lourie of EMC
Incentives bring projects in on time.

Soon, Lourie had the answer: an ingenious incentive plan. At the beginning of each project, he considers its size and complexity and comes up with a royalty figure and a date upon which the product should be ready to market.

Then he specifies another date, which is usually 6 to 12 months after the first: the day upon which the engineers will *stop* receiving that royalty. The earlier the product starts selling, of course, the longer their royalty period. And for every week late or early, he'll lower or raise the royalty by 5% to 8%. "When we announced it, nobody thought it was a big deal," says Richard Egan, the company's chief executive officer. "But when the checks started coming in, you could see the lights staying on at night."

That's because some of EMC's 50 engineers have received bonus payments as high as $15,000. It's not surprising that only 10% of the projects now come in late; 20% are even being completed early. And the new system has helped the company maintain aftertax income of 20%. It all works so well, says Lourie, "It's like I dreamed it." □

HOW THE INC. 100 ARE SELECTED

The 1988 100 is the 10th annual ranking of the 100 fastest-growing publicly held smaller companies in America. Companies are ranked by the percentage increase in net sales (or total revenues) between 1983 and 1987.

□ To be considered for the INC. 100, each company must meet the following criteria:

1. The company is an independent corporation, not a subsidiary or division of another company. Regulated banks and utilities and holding companies are excluded.

2. The company was publicly held before the end of fiscal year 1987.

3. The company shows an operating/sales history of at least five years.

4. The company's 1987 sales exceeded its 1986 sales. Companies showing growth over the five-year period, but a decline in 1987 sales, are excluded.

5. The company's 1983 sales were at least $100,000, but no more than $25 million.

■ The INC. 100 research staff used company prospectuses, 10-Ks, annual reports, and various directories to maintain the in-house database of publicly held smaller companies. Using audited financial statements, researchers then ranked the top 100 companies.

■ An editorial team led by special projects editor Sara Baer-Sinnott and assistant research editor Deborah L. Weeks selected the 1988 INC. 100. The research was conducted by Connie Ahlstrom, Jeff Bienkowski, Mitchell Burd, Pat Cleary, Fraser Gibson, Kate Gilmore, Allison Jones, Christy Miller, Lisa Moretti, Paul Thomas, Becky Thorp, and Tica Williams. The chart was prepared by Deborah L. Weeks.

INC. 100 INDEX

Acuson (35)
Advanced Marketing Services (50)
America West Airlines (42)
American City Business Journals (37)
Amgen (67)
Amre (84)
AST Research (88)
AutoSpa (57)
Baker Communications (62)
Ballard Medical Products (18)
Barris Industries (34)
Ben & Jerry's Homemade (86)
Best Buy (61)
Bio-logic Systems (89)
Bio-Technology General (92)
Bonneville Pacific (12)
Brentwood Instruments (82)
Businessland (20)
Calgene (70)
Canterbury Educational Services (51)
Care Plus (4)
Catalyst Energy (19)
Cerner (60)
Clean Harbors (69)
Code-Alarm (95)
Com Systems (55)
Consolidated Stores (78)
Continuing Care (31)
Datarex (28)
Diagonal Data (81)
Domain Technology (5)
ECAD (46)
EMC (77)
Encore Computer (16)
Entertainment Marketing (1)
Excelan (13)
Expeditors International (26)
First World Cheese (40)
Gateway Communications (8)
General Parametrics (15)
Harken Oil & Gas (11)
HealthWays Systems (87)
HMSS (39)
Home Shopping Network (2)
Impact Systems (72)
Informix (80)
Insituform Southeast (66)
Integrated Device Technology (79)
IntelliCorp (38)
Intelligent Electronics (48)
Intermark Gaming International (53)
Interspec (24)
Jacor Communications (68)
King World Productions (45)
Landmark American (54)
Le Peep Restaurants (36)
Linear Technology (9)
L.A. Gear (90)
Manufactured Homes (85)
Massachusetts Computer (52)
Mesa Airlines (59)
MicroAge (32)
Microcom (64)
Modular Technology (58)
National Healthcare (14)
Neeco (63)
New World Pictures (25)
North Atlantic Technologies (93)
Novell (41)
Nu Horizons Electronics (75)
Nu Med (33)
Oracle (56)
Osicom Technologies (6)
Patten (83)
PC Quote (98)
Plant Genetics (73)
Price Communications (74)
P.A.M. Transportation Services (100)
Ross Stores (30)
Sahlen & Associates (7)
Samna (22)
Security Tag Systems (29)
Sigma Designs (27)
Sooner Defense of Florida (76)
Staff Builders (94)
Sun Microsystems (17)
Surgical Care Affiliates (71)
System Software Associates (23)
TCBY Enterprises (49)
Tech Data (44)
Telematics International (21)
ThreeCom (65)
Trimedyne (43)
United HealthCare (47)
University Genetics (91)
Vestar (96)
Vipont Pharmaceutical (10)
Vivigen (99)
V-Band (97)
Warehouse Club (3)

PHOTOGRAPH DILIP CHAUHAN

IN THE BLACK

When two INC. 100 companies are growing quickly in the same industry, why is one profitable and the other not?

BY TOM RICHMAN

FOR AS LONG AS INC. HAS BEEN PUBlishing a list of the 100 fastest-growing public companies, critics have been pointing out (with justification, to be sure) that growth isn't everything. Celebrating growth alone, they lecture us annually, overlooks and thereby demeans other characteristics people ought to examine in judging the success of a business—to begin with, its profitability. It's one thing to grow a business quickly, they say, but to earn at the same time—now *there's* a good trick.

▶ STORY PROPOSAL ◀

Breeze through the INC. 100 list, and you'll notice several instances of pairs of companies in the same industry reporting radically different earnings. They have so much in common: similar ages, markets, opportunities. They're both growing rapidly, which probably means they're doing something right. So why, if they started out with similar ideas, is one profitable and the other not? I decided to look at three of these mismatched pairs to see, if I could, what accounts for the difference. —*T.R.*

They're right. You can't tell it from our charts, but only a few of the companies on this year's list have reported a profit during each of the past five years, when they were doing their growing. The rest experienced losses in at least some of those years and 23 of them are still writing in red.

What's the difference? What makes one hypergrowth company profitable and another not? Obviously, differences exist among industries. Companies built around a single new product or new technology, for instance, usually find profits elusive until they can first create the product and then its market. It's often easier, in contrast, for a young service company to move quickly into the black.

But what about comparing the early profitability of companies in the same industry, in practically the same business? What accounts for the fact that one company can grow and earn simultaneously and another in the same industry cannot?

That's the case with at least three pairs of the '88 INC. 100. In each pair, one is the mirror image of the other. One is profitable, one is not. There are two power companies, two airlines, and two restaurant franchisors. What accounts for the differences between them?

■

TAKE THE TWO INDEPENDENT POWer companies for starters. Bonneville Pacific Corp. (#12) and Catalyst Energy Corp. (#19) aren't electric utilities as you normally think of those staid behemoths. (If they were, they surely wouldn't be on anybody's fastest-growing list.) Both were founded and grew up under PURPA, the 1978 Public Utilities Regulatory Policies Act, which says in effect that entrepreneurs may build power-generating plants and sell their electricity to regulated utilities, which must buy it at their own so-called avoided-cost price.

This avoided cost is the expense a utility would incur if it had to produce the power itself. If the utility is short on power and would have to build a new generating plant to meet demand, then the avoided-cost price it will pay for the independent's power is high. And that's been the case for the past half-dozen years. The independent-power industry began to expand in the early '80s, and some estimates have it growing to $60 billion in sales—largely at wholesale to the regulated utilities.

Bonneville Pacific is based in Salt Lake City, far removed from the deal-doers of Manhattan and their West Coast counterparts. In 1980 four founders together put up $160,000 to capitalize the company. Then they carefully and systematically went about locating suitable alternative-energy sites, hiring builders, arranging financing, and contracting to sell the power their plants would produce.

Its small equity base wouldn't allow the company to retain ownership of the highly leveraged projects it developed, so Bonneville sold the plants, usually to investors. It often continued to operate these plants, however, under contract with the buyer.

Over time, contract revenues plus profits on the sales of successive plants, as well as an initial public offering, helped the company build its equity base. As a result, it was able to undertake development of larger and larger projects. But its business discipline didn't change. Bonneville continued to watch its construction costs carefully, thereby building into its plants the widest possible gross margin between its own power-generation costs and the price that the power would fetch on the wholesale market. It is currently constructing a gas-fired cogeneration plant, for instance, that will cost $700 per kilowatt of capacity to build compared, says Bonneville managing director L. Wynn Johnson, with the utility industry's normal cost of $1,000 to $1,500 per kilowatt. More than once, chairman Raymond L. Hixson says, he and Johnson worked wrench in hand helping engineers bring a project in on schedule. Bonneville decorates its annual reports with photos of power plants, generators, and hydroelectric dams.

In contrast, at its midtown Manhattan high-rise quarters, Catalyst Energy has decorated two conference-room walls with framed tombstones and securities certificates. At this company, they talk deals.

Chief executive officer John Kuhns, with cigar and fancy suspenders, is in fact talking about Catalyst's origins. "Three of us had left Salomon Brothers in 1979 to advise municipal utilities on financing. Then in 1981 I said, 'Look, we're making a decent living, but we're paying taxes. There are all kinds of tax advantages if we own these [independent power facilities].' It was an industry we already knew something about—not that investment bankers know about the utility business. They know about investment banking . . . [But] most people in the business didn't know any more than we did, so we said, 'Let's jump in.' "

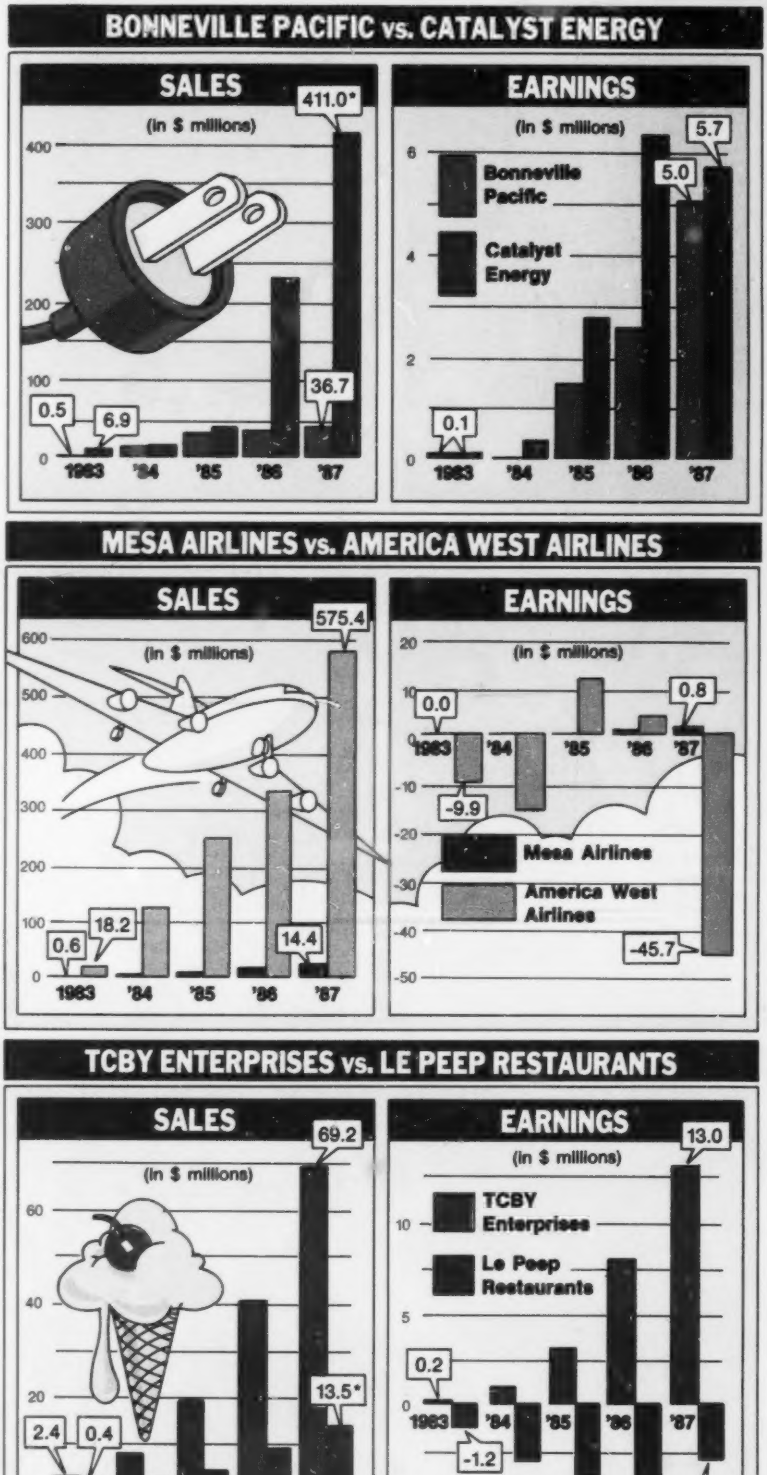
He and his friends collectively put up $2 million (12 times Bonneville's initial equity) to launch Catalyst. But they never intended for the company to develop plants as Bonneville did. "We didn't hire engineers and do our own designs," Kuhns says, adding, "A lot of people thought of us as scavengers." Catalyst, as the name implies, brought its deals off by finding the financing. "We went out and found developers who were having trouble getting money. We got the money. They took a piece of the project, and we took the rest."

Catalyst started out bigger than Bonneville and grew much larger. It had '87 revenues of $411 million; Bonneville's were $38 million. It diversified geographically more than Bonneville, owning plants across the country, and it purchased a wider variety of plants. Catalyst owns, for instance, the old steam-generating plants serving downtown buildings in Boston and Philadelphia. Catalyst went public at $6 per share, and its stock hit a peak of $29. Bonneville's stock only rose to $14 from its $9 IPO price.

While Bonneville just finished its best year ever with earnings of $5 million, or 13.6% of sales, Catalyst eked out a 1.4% return in 1987. Still profitable? Yes, barely. But as a going concern, Catalyst's management has decided that the company has no future. Last year it was number one—right at the top of the INC. 100 list. But this year—poof! If events follow plan, within a couple of months Catalyst will go private and begin the process of liquidating itself. Soon it will be no more.

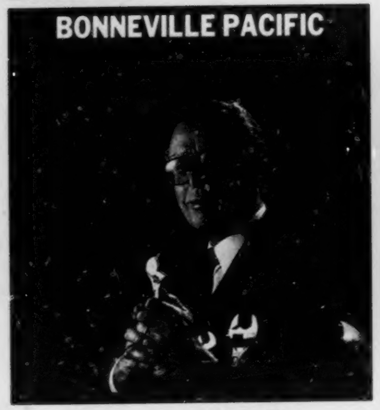
How come the better-equipped company that was first off the block couldn't finish the race? The answer goes to the heart of what separates the two companies: the relative importance that each accorded the several risks they both faced.

"Financing," Kuhns says, "was the key ingredient" in the projects Catalyst undertook. If it could finance a deal, it would do it. But that meant that the viability of the deals it did rested primarily on two risk factors, neither of which Catalyst could control in the long run. The first was the tax laws, which until recently accorded these deals special treatment. The second was the

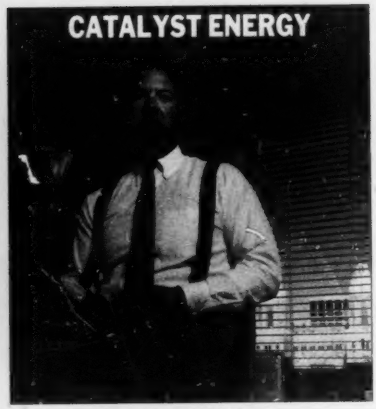


DAVID MILLER

Each company grew quickly, but profitability didn't always follow.



Chairman Raymond L. Hixson
Paring of costs paid off in the downturn.



CEO John Kuhns
Who lives by the deal, dies by the deal.

avoided-cost price its power would fetch.

Bonneville, on the other hand, put its primary emphasis on building plants that would generate power at the lowest possible cost. It couldn't control the two risk factors—tax laws and avoided-cost price. But the company could give itself a wide margin for accommodating change.

Tax laws did change, and a lot of newly constructed generating capacity caused a drop in avoided power costs. Bonneville's greater margins left it room to maneuver. "We never promoted the tax-shelter elements of plant ownership," says Hixson. "We sold only cash on cash returns. That way, when the tax laws changed [in 1986], Bonneville still had a marketable product."

On the other hand, some Catalyst plants were no longer profitable. Also, unexpected costs cropped up in connection with its acquisition of the Boston and Philadelphia steam plants. And then Black Monday knocked Catalyst's stock price from $12.25 to $3.75, making it essentially worthless as currency for new deals. "Our growth comes from assets under ownership," says Kuhns. "This company has grown because of deals. Take away the deal, and we're back to being a regular utility," which is not a very exciting business these days. Investors don't put the same premium on the stock of a company growing 10% a year as they do on one exploding by hundreds of percentage points annually. So Catalyst is dead in the water, worth, says Kuhns, only what it can get for the assets.

Who lives by the deal, dies by the deal. RIP Catalyst. Bonneville, in contrast, survives and, so far, thrives.

■

ED BEAUVAIS MAY BE RIGHT. HIS company, America West Airlines Inc. (#42), may do just fine, as he says it will, once it has time to exploit its so-called niche. Unfortunately for Beauvais and America West, the airline Beauvais envisioned and equipped with shiny new Boeing 737s and 757s is too big for the niche it was built to serve. To support its size and Beauvais's ambition, America West has had to expand, which means that it's now bumping heads with major airlines on their bread-and-butter routes. Further, the majors have decided they'd like a piece of America West's niche, which lies smack in the middle of the growing Southwest. It's getting pretty crowded. The consequence of the expansion and competition is that America West lost $46 million on revenues of $575 million last year.

Like America West, Mesa Airlines Inc. (#59), based in Farmington, N.Mex., has grown. It now makes 15 commuter runs a day between Farmington and Albuquerque. And like America West, Mesa has expanded its route system. Its planes fly as far north as Wyoming, into southern New Mexico, and as far east as Dallas, which at 400 miles is its longest run. But unlike America West, Mesa has been profitable, except for one year, as it has grown. Last year it earned $790,000 on revenues of $14.4 million. That's because, unlike Beauvais, Mesa's founder, Larry Risley, didn't have the capital or the sophistication to fight the majors.

Instead, Risley looks for routes where *only* small (19-passenger) planes can turn a profit, and he steels himself against the inevitable competitor even in that niche by paying relentless attention to cost. When challenged on a route, Mesa drops its price. The current $48 fare between Farmington and Albuquerque has fallen as low as $24 when challengers have appeared. "When I'm breaking even," says Risley, "my competitor is losing his shirt. That's my advantage." He's building a computerized management accounting system that eventually will allow him to calculate the previous day's P&L for any aircraft or any route.

But his smartest move, Risley thinks, is something he hasn't done. "The greatest temptation to any commuter airline," he says, "is to be a major airline, not to be satisfied with filling its niche. Every community you serve would rather be served by a 747. And the manufacturers make it so easy to get the equipment. I shouldn't have bought that last 19-passenger plane. A 13-passenger is what I needed. I let my ego overcome my better judgment."

The difference between the two companies? Beauvais and Risley.

Beauvais, America West's founder and CEO, was an airline-industry economist and consultant for 11 years before he collected the nucleus of a management team in 1981 and raised $20 million to start an airline, for which he clearly had big plans from the outset. His niche was really just a wedge that Beauvais could use to ease America West into the airline big leagues.

Risley, on the other hand, had no problem thinking small. The big leagues weren't for him. About the time Beauvais was raising $20 million, Risley, a mechanic running an aircraft-maintenance company at the Farmington airport, pledged his house and a used nine-passenger airplane as security for a $140,000 bank loan to get Mesa airborne. The plane cost $125,000. The other

MESA AIRLINES

Founder Larry Risley
Finding a niche and holding to it

AMERICA WEST AIRLINES
West Airlines

CEO Ed Beauvais
He thought big from the start.

PHOTOGRAPHS: TOP LEFT, DON STEVENSON; RIGHT, JOHN MADERE; BOTTOM LEFT AND RIGHT, DON STEVENSON

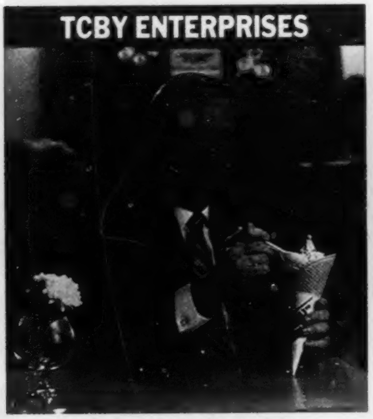
$15,000 was working capital. His biggest ambition at the time was to operate a shuttle service—four or five round-trips per day—between Farmington and Albuquerque, 148 miles apart.

Looking at both companies today, you'd have to award the prize for good sense to Risley. Mesa's growth is a classic case study in the right way to develop and control a market niche. If he keeps it up, Risley will have a nice little business some day. Beauvais, by comparison, was foolish. He'll probably fail. But suppose he doesn't; in that case he'll be running a major airline and one of the decade's most successful growth companies. Who will be the hero then?

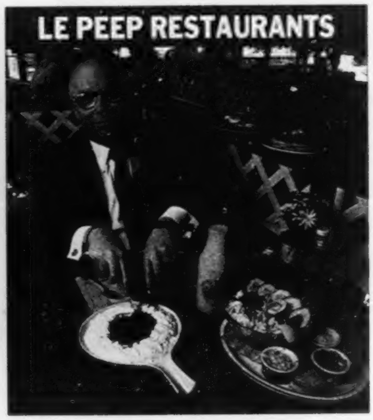
At America West, there's much at risk,
And a great deal more to gain.
The rewards of prudence are more secure,
But daring tempts with fame.

■

IN THE RESTAURANT FRANCHISING business, daring seems no part of Frank Hickingbotham's plan. But that doesn't mean his company hasn't achieved size.



Chairman Frank Hickingbotham
Emphasizing consistency over creativity



CEO Allen Bernstein
Does the niche he envisions really exist?

It began, the company legend goes, in Little Rock in 1981 when the founder, who had recently sold another business, opened one small frozen-yogurt shop in a suburban shopping center. That's all he wanted: just one store. He called it This Can't Be Yogurt, eventually abbreviated to TCBY. But soon the line was trailing out the door. When was he going to open another store? people wanted to know. And, other people asked, could they buy a franchise? So *Mister* Hickingbotham—he's *Mister* to everyone in the company, including son Herren, the executive vice-president—commissioned a study, which told him that he could successfully franchise the concept. He started the next year, 1982, and today TCBY (#49) is the largest of several frozen-yogurt chains in the country, expecting to open store number 1,200 by year end.

Hickingbotham has kept the concept simple. The stores sell only frozen yogurt in lots of day-glo colors with flavors to match and sweet toppings or mix-ins. Just pour the yogurt from the container it comes in into the dispensing machine.

At TCBY, they take frozen yogurt very seriously, but the company makes up in attention to detail what its executives appear to lack in humor. *Mister* Hickingbotham has built a vertically integrated corporate machine with an army of field managers, and he knows how to extract a profit from the business at every conceivable level. TCBY Enterprises Inc. sells its franchisees the equipment and consumables they need to get into the frozen-yogurt business. It sells them the yogurt it manufactures in a Texas plant, and then collects a royalty on their gross sales. Later, if a franchisee wants to grow, TCBY will finance the expansion.

The company emphasizes giving the customer consistency. "McDonald's doesn't claim to have the *best* hamburgers in the world," says Gale Law, TCBY's chief financial officer, "but you can go into a McDonald's anywhere and know exactly what you're going to get." It's supposed to be the same at TCBY. "If franchisees want to be creative," Law adds, "then they should have been independent businessmen."

The no-nonsense yogurt company is very profitable. It earned $13 million on revenues of $69 million last year, and it has been profitable since start-up. "Mr. Hickingbotham," says Law, "didn't know there was such a thing as start-up losses. He didn't know you could do that and survive."

But in Syosset, N.Y., Allen Bernstein, full of smiles and enthusiasm, with a waistline that testifies to frequent product sampling, is surviving and having a wonderful time despite the losses that his young chain, Le Peep Restaurants Inc. (#36), has produced thus far. "It was a foregone conclusion that we would lose money for a few years," Bernstein says, almost dismissing the subject. Last year the company lost $2.8 million (in its first nine months) on revenues of $13.5 million. Yes, he says, "we *are* in business to make money. We believe our results will be significantly better in 1988." But that's not the stuff Bernstein wants to talk about. He gets a lot more animated talking about restaurants and food.

"What if you want to meet someone, socially or for business, before 11 a.m.? Where," he demands, "are you going to go? Denny's? That, or you could spend 60 bucks at the Ritz Carlton."

Bernstein's proposition to the market is that Le Peep can fill the morning niche with a sit-down breakfast restaurant serving artfully presented $4 to $6 entrées that you'd never make at home. It's not just the food he's betting on, although the food has to be good if Le Peep is going to work. But over and above that, he's betting that people want a place to go in the morning. He's presupposing that the niche he wants to fill really exists. "At lunch," says Bernstein, "we're not changing anyone's lifestyle." But that's exactly what he'll have to do at breakfast to succeed. And it's not a simple gimmick—an egg on a muffin—that he's relying on, but a line of entrées that are relatively difficult to make.

Any similarity between the Le Peep and TCBY strategies ends with the fact that both chains sell food. "We run restaurants. We're not in the manufacturing or the trucking business," says Bernstein. The only thing he wants from his franchisees is 5% of gross sales. He doesn't want to sell them eggs. "It's also a quality-of-life issue. If the Le Peep truck doesn't show up," says Bernstein, "you'd be upset with me. Now, you're just mad at the distributor. I want as few areas for potential conflict as possible."

Where TCBY strives for simplicity—it's hard to imagine who *couldn't* run a TCBY store—Le Peep won't sell a franchise to anyone but an experienced chain operator, or to someone who has such a person as at least a 25% equity partner. Its concept is that difficult to execute.

But the losses? If Le Peep is such a good idea . . .

The restaurants are profitable, Bernstein says, even though the franchisor is not. But profits will come, he assures, when enough new restaurants come on line.

Persuasive?

Not completely. But suppose he's right and the idea really does work. He'll have done more than build a company, which is no small feat by itself, goodness knows. He'll have created something new, something fun, something at least as significant as another positive income statement, something we didn't have before. Bernstein's enjoying himself. It's no substitute for profitability, to be sure, but a business is often the richer for it. □

Research assistance was provided by Connie Ahlstrom, Amy Schulman, Paul Thomas, and Deborah L. Weeks.

PHOTOGRAPHS: LEFT, STEWART CHARLES COHEN; RIGHT, STEVEN BEGLEITER

ATTACK OF THE BEARS

Why did the small-cap stocks lose their luster?

BY ROBERT A. MAMIS

▶ STORY PROPOSAL ◀

Even the smartest growth-sector money managers failed to outperform the Dow in 1987—but no one could convincingly explain why. Growth stocks were the ones that jumped out in front of blue chips earlier in the '80s. Not that the behavior of stocks ever is rational, but there has to be some reason for recent disdain. Since no consensus has emerged from Wall Street pros, let me throw in a few conjectures of my own. Among them: P/E's don't mean much, investors don't scrutinize balance sheets, and the short-selling rules on NASDAQ put small-cap stocks at a disadvantage. *—R.A.M.*

IF COMMON STOCKS WERE THE ONLY equity play in town—instead of having to vie with options and futures and other capital-diverting mutants—they'd support price-to-earnings ratios well over the abject 15.9 to which the average Dow Jones Industrial was reduced last October. Even the earnings multiple past 20 that the Dow reached before its autumnal fall is piddling compared to the Tokyo stock exchange's Nikkei index, whose average P/E hovers at 50. And *that's* cheap: the P/E of Nippon Telegraph & Telephone Corp., a new public issue last year, roared past 250 while NT&T was taking its place as the world's biggest public company, measured by market value. Yet for all their mighty multiples, Japanese stocks haven't hit the skids.

Massive corporations attract the lion's share of attention in Japan, whose naturally cautious investors prefer names they know even if they have to pay up for them. On *our* shores, though, no matter how obscure the enterprises, no matter whether they're traded on the NYSE, Amex, NASDAQ, or in the pink sheets, every day somebody buys shares in just about every publicly traded company in the country. Willingness to take a chance is why we can bring out dozens of initial public offerings in a given month, some of which are nothing but empty shells in search of yet-to-be-determined contents. The quantity of domestic common-stock issues handled by the NASDAQ system alone has nearly doubled in 10 years, from 2,346 in 1977 to 4,330 in '87. Add in 1,600 from the NYSE and 900 from the Amex, and you have a sea of 7,000 smiling public faces, each begging to be bought.

Of course, that spreads available money thinner and thinner, which is one reason our bull market finally ran out of steam—one day the buyers evaporated, just as market-makers complained. Why else were so many mostly fast-growth, mostly thinly capitalized, mostly over-the-counter companies relegated to the coal bin last fall? Especially inasmuch as some sported balance sheets stronger than General Motors'? And why, humbled as they already had been before the crash, were these secondary stocks treated more cruelly than their seasoned brethren, when many could boast price-to-book-value ratios half that of the Standard & Poor's 400?

These consequences were hardly imagined when the fast-growth crowd was in the bull market's avant-garde not long ago, the top-performing 1981 and 1983 INC. 100s gaining 76% and 72% respectively. But the companies themselves weren't necessarily to blame for the slide to the rear. Take Seagate Technology, a typical OTC casualty that fell from a yearly high of more than $45 to less than $10 in the aftermath of Black Monday. At that time, the company showed $395 million in cash on its books. Thus, with 48.8 million shares outstanding, for $10 a buyer would have been purchasing $8.09 worth of cash per share. The remaining $1.91 would have gone into owning the rest of the thriving disk-drive maker, whose book value had been reported at more than $7 per share. For the $3 or so that Seagate was selling over book value, a

HOW THE INC. 100 STACK UP

To calculate the collective 12-month stock-market fortunes of its annual ranking, INC. goes back a year and "spends" $100 on each issue at the closing price then prevailing. That academic exercise determines the number of shares fancifully invested in, factored for stock splits and stock dividends declared within the period (but not for cash payouts, which among such fast growers are assumed to be negligible). For better or worse, the shares are "sold" exactly one year later, and the profits or losses simply toted up and divided by 100. In the case of stocks traded over the counter, of which there were 86 this time (along with 6 on the NYSE and 8 on the Amex), the closing bid is used as a basis at both ends of the transaction. For IPOs that came out within the period—16 this year—the first open-market bid is used.

For the fourth time in five years, the INC. 100 trails the popular averages. But it might have been worse: what if our whimsical indulgence had to pay brokerage commissions?

RELATIVE MARKET PERFORMANCE

DJI	2,220.47	2,070.46	-6.76
S&P 400	321.19	308.81	-3.85
AMEX	321.75	288.91	-10.21
NASD IND'LS	442.30	374.61	-15.30
INC. 100	100.00	81.05	-18.95

INC. 100
MARKET PERFORMANCE

1. **Baker Communications** (BAKR/O)	62	$1.75	$4.00	$228.57
2. **Oracle** (ORCL/O)[1]	56	38.25	15.13	158.17
3. **Clean Harbors** (CLHB/O)[2]	69	9.00	13.25	147.22
4. **Diagonal Data** (DDAT/O)	81	2.75	4.00	145.45
5. **Com Systems** (CMSI/O)	55	1.13	1.63	144.44
6. **Harken Oil & Gas** (HOGI/O)	11	3.00	4.31	143.75
7. **Amre** (AMM/N)[3]	84	28.00	20.13	143.75
8. **Informix** (IFMX/O)	80	14.50	20.50	141.38
9. **L.A. Gear** (LAGR/O)	90	11.50	16.13	140.22
10. **Vipont Pharmaceuticals** (VLAB/O)	10	13.25	18.50	139.62
11. **Canterbury Educational Services** (SKIL/O)	51	0.75	1.00	133.33
12. **First World Cheese** (FWCH/O)	40	3.75	4.88	130.00
13. **Security Tag Systems** (STAG/O)	29	1.88	2.44	130.00
14. **Surgical Care Affiliates** (SCAF/O)	71	7.25	9.25	127.59
15. **Integrated Device Technology** (IDTI/O)[4]	79	15.25	12.88	126.64
16. **Ballard Medical Products** (BMED/O)	18	12.00	15.00	125.00
17. **Manufactured Homes** (MNH/A)	85	11.63	14.50	124.73
18. **Ben & Jerry's Homemade** (BJICA/O)[5]	86	18.25	15.00	123.29
19. **AutoSpa** (LUBE/O)	57	1.94	2.38	122.58
20. **Code-Alarm** (CODL/O)[6]	95	6.50	7.75	119.23
21. **Sun Microsystems** (SUNW/O)	17	28.13	32.75	116.44
22. **Price Communications** (PR/A)[7]	74	11.50	8.25	112.09
23. **Samna** (SMNA/O)[8]	22	6.75	7.50	111.11
24. **PC Quote** (PCQT/O)	98	4.63	5.13	110.81
25. **Novell** (NOVL/O)[9]	41	38.25	21.00	109.80
26. **Acuson** (ACSN/O)	35	18.50	19.50	105.41
27. **Datarex** (DRX/A)	28	13.75	14.38	104.55
28. **Microcom** (MNPI/O)[10]	64	17.25	17.75	102.90
29. **Trimedyne** (TMED/O)	43	16.50	16.75	101.52
30. **HMSS** (HMSS/O)[11]	39	17.25	17.50	101.45
31. **King World Productions** (KWP/N)	45	20.88	20.88	100.00
32. **Expeditors International** (EXPD/O)	26	15.75	15.50	98.41
33. **System Software Associates** (SSAX/O)	23	15.50	15.25	98.39
34. **Staff Builders** (SBLI/O)	94	6.00	5.88	97.92
35. **Linear Technology** (LLTC/O)	9	11.50	11.00	95.65
36. **Sahlen & Associates** (SALN/O)	7	2.63	2.50	95.24
37. **Landmark American** (LCO/A)[12]	54	3.00	3.50	93.33
38. **3Com** (COMS/O)	65	22.88	21.00	91.80
39. **Modular Technology** (MTIK/O)	58	2.75	2.50	90.91
40. **Amgen** (AMGN/O)	67	36.75	33.25	90.48
41. **Encore Computer** (ENCC/O)	16	2.94	2.56	87.23
42. **ECAD** (ECAD/O)[8]	46	8.50	7.38	86.76
43. **Advanced Marketing Services** (ADMS/O)[13]	50	13.25	11.25	84.91
44. **Tech Data** (TECD/O)[14]	44	20.00	11.00	82.50
45. **Massachusetts Computer** (MSCP/O)	52	8.50	7.00	82.35
46. **Sigma Designs** (SIGM/O)[15]	27	33.25	13.50	81.20
47. **Bio-logic Systems** (BLSC/O)	89	7.00	5.63	80.36
48. **Ross Stores** (ROST/O)	30	7.75	6.00	77.42
49. **Jacor Communications** (JCOR/O)	68	6.88	5.25	76.36
50. **Interspec** (ISPC/O)[8]	24	11.50	8.75	76.09
51. **Cerner** (CERN/O)	60	$22.25	$16.75	$75.28
52. **Bonneville Pacific** (BPCO/O)	12	9.75	7.13	73.08
53. **Intermark Gaming International** (IGII/O)	53	4.63	3.38	72.97
54. **Neeco** (NEEC/O)	63	18.50	13.50	72.97
55. **Vestar** (VSTR/O)	96	9.75	7.00	71.79
56. **Intelligent Electronics** (INEL/O)[9]	48	10.00	7.13	71.25
57. **TCBY Enterprises** (TCBY/O)[16]	49	18.75	8.75	70.00
58. **Excelan** (EXLN/O)	13	15.75	11.00	69.84
59. **MicroAge** (MICA/O)[13]	32	10.25	7.13	69.51
60. **Vivigen** (VIVI/O)	99	8.50	5.88	69.12
61. **Osicom Technologies** (OSIC/O)[8]	6	7.25	5.00	68.97
62. **Warehouse Club** (WCLB/O)	3	3.63	2.50	68.97
63. **HealthWays Systems** (HWSI/O)	87	5.88	3.88	65.96
64. **General Parametrics** (GPAR/O)	15	5.50	3.50	63.64
65. **Plant Genetics** (PGEN/O)[8]	73	9.50	6.00	63.16
66. **V-Band** (VBAN/O)	97	27.50	17.00	61.82
67. **Nu Horizons Electronics** (NUH/A)	75	5.13	3.13	60.98
68. **United HealthCare** (UNIH/O)	47	7.63	4.63	60.66
69. **Le Peep Restaurants** (LPEP/O)	36	4.00	2.38	59.38
70. **Telematics International** (TMAX/O)[17]	21	14.75	8.38	56.78
71. **Barr's Industries** (BRRS/O)	34	17.13	9.63	56.20
72. **American City Business Journals** (AMBJ/O)	37	24.50	13.75	56.12
73. **America West Airlines** (AWAL/O)	42	10.75	6.00	55.81
74. **Domain Technology** (DOMN/O)[18]	5	10.00	5.50	55.00
75. **Calgene** (CGNE/O)	70	12.75	7.00	54.90
76. **Businessland** (BLI/N)	20	16.75	9.13	54.48
77. **Mesa Airlines** (MESL/O)[17]	59	8.00	4.00	50.00
78. **North Atlantic Technologies** (NATT/O)	93	1.00	0.50	50.00
79. **AST Research** (ASTA/O)	88	20.50	9.50	46.34
80. **Insituform Southeast** (ISEC/O)	66	7.25	3.13	43.10
81. **Patten** (PAT/N)[19]	83	19.38	5.13	39.68
82. **Bio-Technology General** (BTGC/O)	92	17.25	6.50	37.68
83. **Catalyst Energy** (CE/N)	19	26.00	9.63	37.02
84. **Nu Med** (NUMS/O)	33	6.13	2.25	36.73
85. **EMC** (EMC/N)[20]	77	27.00	14.50	35.80
86. **Sooner Defense of Florida** (SOON/O)	76	5.38	1.88	34.88
87. **Care Plus** (CPLS/O)[21]	4	1.28	3.00	33.45
88. **Impact Systems** (MPAC/O)[8]	72	8.75	2.88	32.86
89. **Best Buy** (BBY/N)	61	22.50	7.38	32.78
90. **Consolidated Stores** (CNS/A)	78	16.25	5.13	31.54
91. **Entertainment Marketing** (EM/A)	1	14.00	4.38	31.25
92. **IntelliCorp** (INAI/O)	38	9.50	2.88	30.26
93. **Brentwood Instruments** (BRWD/O)	82	3.25	0.88	26.92
94. **Gateway Communications** (GWAY/O)	8	9.88	2.63	26.58
95. **P.A.M. Transportation Services** (PTSI/O)	100	15.25	4.00	26.23
96. **University Genetics** (UGEN/O)	91	1.69	0.44	25.93
97. **National Healthcare** (NHCI/O)	14	2.63	0.63	23.81
98. **New World Pictures** (NWE/A)	25	11.00	2.50	22.73
99. **Home Shopping Network** (HSN/O)	2	32.75	6.00	18.32
100. **Continuing Care** (CONC/O)	31	3.75	0.50	13.33

CHART TYPESET BY B.P.E. GRAPHICS

buyer also acquired the potential to exceed the $2.61 in per-share earnings reported for Seagate's last 12 months.

When a stock such as Seagate plummets, a lot of people stand to lose a lot of money, and too bad for *their* net worth. But in ways that are not so immediate, the effect can be far-ranging. A competing company may lure away key employees by proffering more promising stock options. A proposed acquisition may require out-of-pocket cash or even fail if an exchange of equity doesn't add up. A stock or bond offering will bring in less capital and will be harder to sell. Once institutions become disenchanted, they are hard to bring back, and the stock price will take longer to recover. And private companies that rely on public-company P/Es as the basis for appraisals will, *ipso facto*, be worth less.

Ask a dozen experts why small growth stocks have been performing relatively badly, and you'll get six hems and six haws. One explanation: come a recession, some immature companies will perish; betting on which ones won't is too risky. A second: the '84 to '87 bull leg was foreign driven, and foreigners prefer dividend-payers, which growth stocks aren't. Or "baskets" of computerized trading programs contain only stocks with lots of float; hence secondary stocks get left out of the action. Or fear of illiquidity caused by meager float. Or unreliable OTC market making. And so on.

As plausible a cause as any for the stagnation of small-cap stocks is the premium the market had been demanding for earnings growth. P/Es got so high that investors in growth situations no longer dared relate them to *this* year's earnings. They were driven to couch the multiple in terms of predicted earnings a few years away, making their purchase appear more prudent.

Even if earnings continued up, the increments did not always stick to the anticipated pace—at least not reliably enough to keep many a money manager from looking foolish a few quarters down the road. When it was around $50 in early '87, Home Shopping Network Inc. (HSN) had a P/E of over 150 on earnings of 33¢ a share. But who cared? At the rate of its earnings growth—50% a year—in three years $50 would represent a palatable multiple of 45. Sure enough, HSN, 1987's #1 stock performer on the INC. 100, announced *increased* earnings in March 1987. But in response the stock plummeted 19%, a mini-meltdown that portended things to come. Why the panic? Because, as *The Wall Street Journal* offhandedly noted, "analysts apparently had expected a more dramatic rise." HSN closed out the year at 5⅜.

As an investment guide, the P/E ratio did not come into widespread reference until 1972, when newspaper stock tables began listing them alongside the name of each company. Shareholders liked the simple statistic because it was easy to calculate

CAPITAL LOSSES

'Investors' in the INC. 100 would have had a very bad year indeed

Did all-natural French vanilla gain 23.3% in Tokyo? Did health cheese jump 30% in Hong Kong? Was a London prefab housemaker up 24.7%? Or was some company in Korea ahead 22.6% thanks mainly to drive-in lube jobs? Only in America. The well-trod corner of Wall and Broad is still paved with gold—except it was harder to pry up the bricks last year.

Even so, on the current INC. 100 list are five initial public offerings that dug for it and won. Not bad in a 12-month period that witnessed the worst butchery of a bull since Manolete hung up his sword. Unfortunately for investors, the list's 11 other IPOs lost ground. Not that there was a greater proportion of gainers among the veteran companies, either, but 30 profitable plays out of 100 seems tolerable, all things considered.

One thing that in good faith has to be considered, regretfully, is that a solid 23 of the 30 Dow Jones Industrials posted gains in the same interval that a solid 70 of the 100 INC. industrials didn't. The DJI declined on paper along with INC. and everyone else, to be sure, but that's because it is weighted, with each component's relative capitalization taken into account. Calculated simply like the INC. 100 (see box, "How the INC. 100 Stack Up," page 124), as an unweighted average that suggests how a real investment actually would have fared, the average Dow stock *gained* 10%, compared with INC.'s losing 19%. That's a disturbing 29 percentage point spread between blue chips and baby growths.

But maybe INC.'s index would have gained, too, if we also weighed the significance of a price change in an issue with a million shares versus one with 10 million. And then readjusted the figure for splits and stock dividends, of which there were 15, including two companies who did it twice and three who reverse-split. Or if INC., like Dow Jones, could arbitrarily drop a component it decided wasn't pertinent to its universe. One TV peddler of cubic zirconias would seem to be plenty, but INC. doesn't pick 'em, it only ranks 'em.

Lucky for us, too, as it happens: the least likely candidate for inclusion in anyone's stock index turned out to be INC.'s standout performer, Baker Communications. The developer and publisher of free community newspapers finished 70 percentage points ahead of second-place Oracle, a developer and seller of software. Baker's stock more than doubled, although shareholders hadn't seen a profit in five years or more—a highly creditable performance, considering the Street's demand for earnings histories.

SEVEN HILLS
Our Fourth Anniversary
HOME SHOPPING CLUB

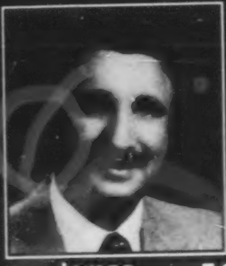
Baker Communications
versus
Home Shopping Network
Big win, no earnings;
no win, big earnings

On the other hand, Home Shopping Network (HSN), 1987's top gainer at 1,000%, *has* shown a profit in each of its past five years, and has backed up that trend with sufficient sales growth to place it second among this year's revenue-producers. Yet, despite so positive a record, HSN came in 99th as a stock-market performer, pathetically dropping 81.7%.

It's in the INC. 100's nature that entrants can come and go according to incremental rates of sales. But those rates become mathematically impossible to maintain as companies get bigger. If they weren't arithmetically forced out of the nest just because some fledgling starting at a lower basis demanded room, the components of our proprietary average might boast big overall winners like the DJI does. Apple Computer, Lotus Development, Liz Claiborne, and Cray Research are all former 100 members, to name a few stalwarts. Then again, that same index could also find itself nursing such overall big losers as ADAC Laboratories, Kaypro, International Game Technology, and Thousand Trails—each an alumnus fallen on hard times.

Oh, well. One oughtn't to demand consistency from so independent-minded a bunch.

Are you serious about SUCCESS?



James Sirbasku IS!

Twenty two years ago I was making a modest living as a butcher in a meat packing plant in Minnesota. My father had been a meat cutter as was his father. Naturally, I thought I was in the place I ought to be. But deep down inside I felt that surely there had to be more to life than lugging sides of wet beef and cold feet.

One day I was attracted to an advertisement with the headline, "Think and Grow Rich." I answered the ad. This was my introduction to a company called SMI, its programs and its principles. Since that day, everything in my life has totally changed—forever.

TODAY

I'm the president of the company. It was not easy and it didn't happen overnight, it didn't happen without a lot of hard work. But, the point is, it did happen. Proof positive that anything is possible if you have the right goal-directed attitudes. That is what SMI is all about; changing people's attitudes.

Please, send for the free tape. Listen to it a few times. The message is timeless. Soon you will start to understand what I did over twenty years ago. Believe me, as a man who went from being a butcher to being the president of a multinational company with personal assets in the millions, I am a firm believer in using what I sell. I use the principles outlined on this tape every day of my life.

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and seemed meaningful; companies took to it because it determined the price at which they could issue stock. But there's no rule that dictates what P/E multiples ought to be—so much for a growth company, so much for one whose stock moves quickly, so much for a dividend payer, and so on. You make them up as you go: if IBM's P/E is 13, and Apple's is 25, now what? Sell Apple? Buy IBM? Is Sun Microsystems a contender at 27? And how to view Entertainment Marketing, this year's #1 INC. 100 company (see page 92), which showed a loss last October and whose P/E, therefore, was meaningless.

On the other hand, there'd be something to get your teeth into if the elusive "P" part of the ratio were defined more concretely as, say, price minus book value. In that case, at $10 Seagate's P/E would shrink to a mere 1.15. Indeed, in the mayhem after the meltdown, a few stocks were selling below both their cash *and* their book value per share. The trend among some analysts is to refine the P/E concept to extracts that are closer to the heart of a balance sheet—discretionary cash flow per share to earnings, for one example that's not apt to appear in tomorrow's stock tables. Since discretionary cash flow is that which is in excess of what is needed to stay in business, it is more a measure of a company's ability to generate cash in hard times than of its ability to grow in good.

An additional pressure on small-cap stocks is that the '80s have become the era of performance. Gone are the go-gos and gunslingers of prior decades, who would gobble up chancy issues in return for a crack at the big score. Now, the measure of proficiency for institutional portfolios is based on the broad averages; a money manager who doesn't perform as well as the S&P 400 not only loses face, but possibly loses job as well. It's safest not to truck with the mercurial small-cap crowd; if you stick absolutely with S&P's solid citizens, the boss absolutely can't fire you.

Despite the grim reaper's pre-Halloween visit, last year the S&P 400 industrials ended up with a respectable gain of 5.9%. Not many equity funds performed that well, however. For example, Fidelity's Magellan Fund, over the past 10 years the country's top-gaining domestic equity fund, was down 1% in 1987. More to the small-company point, Fidelity's OTC portfolio, ahead 68.9% in 1985, dropped 11.1% in '87. "Small-company growth" has become something of a contradiction, and with cause: last fall's worst-performing mutual investments—off some 33%—were those that specialize in small-company growth.

Even if it turns out there is no recession and business stays healthy, October's scare will likely keep stock prices in check. Not all of them, perhaps. The freefall carried prices too far down even for the small-cap stocks, many of which rebounded in the first three months of '88. Novell, which had been driven down to $12, snapped back to its precrash level of $25.50; ditto 3Com, from under $13 to an unmelted $22. And our buyer who chanced Seagate at $10 in October could have sold it above $22 in March—even so, only about half what it fetched the previous summer.

Now, there's yet another downward force to be reckoned with. A number of new or revamped mutual funds have charters that allow them to sell short. (A short sale is the opposite of a long purchase; in it, an investor bets on a decline in the price of a stock, rather than an advance.) No getting stuck on the long side of equities for today's aggressive funds. And where's the most likely place to establish a quick short position? NASDAQ, the short-seller's paradise.

In reforming the financial markets after the '29 crash, the Securities and Exchange Commission ruled that to sell a stock short, the sale had to take place at a price that was higher than the previous price. The so-called "tick" rule was highly effective (until the SEC arbitrarily exempted computer programs in 1986) in preventing greedy short-sellers from indiscriminately piling on more downward pressure to already falling stock prices. But because it was then technically unfeasible, the OTC was excluded. Although its electronic quotation system has now made upticks recognizable, to this day anyone can sell short any stock on NASDAQ in even the most virulent decline.

And with devastating effect, if there's anything to a federal suit filed in February by Occupational Urgent Care Health Systems Inc. (OUCH), in Sacramento. The company charges that from November 1986 through December '87, its stock, traded on NASDAQ, was the target of an old-fashioned bear raid—the kind that the uptick rule all but eliminated from listed exchanges. In this case, the alleged perpetrators—some people at a securities brokerage—were supposed to have taken an unusually large short position during that period, and then to have scattered nasty rumors not only into the market, but among potential OUCH customers, intending to drive the company out of business. If all went negatively well, eventually OUCH stock would have been rendered worthless and the shorts would cash out effortlessly at close to 100% profit.

Whether or not this suit has merit, it is a reminder that the capability of any outsider—arbitrageur, mutual fund manager, or mischief-maker—to sell short with impunity threatens every OTC company to some degree. Marginal stocks can be made to look weak, declines can be turned into wholesale butchery, and such malevolent schemes as the one that allegedly befell OUCH could be sprung on any number of victims. Given the Boeskys of this world, that ought to be frightening enough to give the SEC pause. ☐

HANDS ON

A Manager's Notebook

OPERATIONS

MONEY BACK

Thinking of exporting a product with some imported components? Be sure to ask your customs broker about the U.S. Customs Service's duty-drawback program. Under duty drawback, an exporter can get a refund for 99% of the duty paid on the imported item—even if someone else did the importing.

Example: Carstab Products, a $55-million chemical company in Reading, Ohio, imports an acid from Germany that it uses in making plastic products. Carstab then exports $12 million of its finished product all over the world—and gets back all but 1% of the duties paid on the acid in the exports. That refund amounted to about $50,000 last year.

"Duty drawback has been around since 1789," says Harold Lemesh, chief of the liquidation branch of the San Francisco Customs District. "But there are still probably hundreds or even thousands of companies that have never heard of it." ☐

WORKPLACE ISSUES

FEAR OF AIDS

The AIDS-related issues cited as most important by personnel managers:

Co-workers' fear	40%
Legal responsibilities of the employer	22%
Potential for increased health-insurance costs	11%
Protection of health-care workers and others who physically care for people with AIDS	11%
Lost productivity of co-workers due to absence or refusal to work with person with AIDS	5%
Lost productivity of a person with AIDS	2%

Source: *Personnel Journal*

To help meet the need for information, Personnel Journal *publishes a free listing of the 200 or so publications available that deal with managing AIDS issues in the workplace.*

RECRUITING

HOLD THAT RESUME!

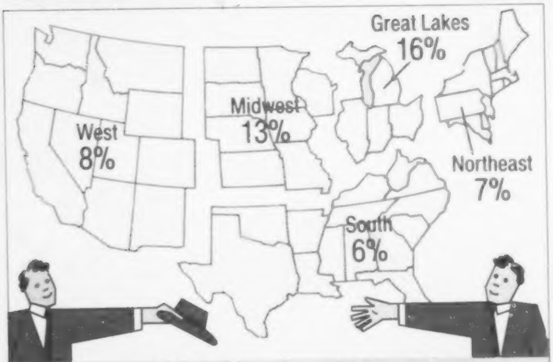
Admit it. When you've finally settled on the right person to fill an opening, you're only too happy to fold, spindle, and mutilate the remaining résumés still cluttering your desk, right? If so, says Warren Rodgers, president of Computer Specialists Inc. (CSI), in Monroeville, Pa., you're making a big mistake.

Instead of chucking the lot, he weeds out applicants with any promise—so far, he's culled 600—and enters their names and special skills into a computer. If he discovers he needs the skills of an on-file applicant later, he calls. And those he doesn't call? Rodgers keeps in touch. Occasionally, he even points them toward full-time jobs in companies besides his own.

It's not surprising that such treatment "does wonders for our image in the marketplace," says Rodgers, whose company relies on having access to "a steady stream of quality people." What's more, those placed outside can become great sources of industry information. "We want them to remember us," says Rodgers. ☐

PERSONNEL

JOB SHARING



Source: Association for Management Success

Job-sharing plans, which allow two or more people to share a single full-time job, have grown in popularity during the 1980s. Companies in the Great Lakes or Midwest regions are about twice as likely to have job sharing as those in the East, West, or South.

MANAGING PEOPLE

THE INSIDE STORY

You can't solve problems until you identify their source. If, for instance, you operate a growing retail chain, and you sense that a particular store is underperforming, you're probably going to ask the store's manager what's causing the trouble. Nothing wrong with that, except that you might hear only part of the story. To find out what's *really* happening, Richard Schulze suggests you should check in with the checkout personnel—preferably by taking them to breakfast.

"If you've got a problem," advises Schulze, CEO of Minneapolis-based Best Buy Co., a chain of 40 consumer-electronics superstores, "go to the last point the customer visits." In retailing, that means the folks behind the cash registers.

Cashiers hear customer complaints and observe how a store runs, but all too often nobody asks their opinions. After Schulze's most recent cashiers' breakfast, at his Iowa City outlet, he made changes in store-level management.

Schulze says breakfasts work out better than traditional meetings because the relaxed atmosphere helps conversation get started. And the cashiers consider it a nice treat. For $50 to $60, he gets "absolutely invaluable results." ☐

DIAGRAMS: CYNTHIA DAVIS

HANDS ON

HIRING

HITTING THE PHONES

If much of your company's contact with customers is by telephone, why not take phone manner into account in hiring decisions? Darline Porter, co-owner of Horrell & Son Heating and Air Conditioning, in Sacramento, does just that.

Before prospective office employees get invited for interviews, they must speak to Porter on the phone—where, unbeknownst to them, she evaluates them for a pleasant voice and manner. By immediately eliminating substandard applicants, the process cuts down on the number of in-person interviews Horrell & Son conducts. And it helps ensure the kind of phone service that earns the company frequent praise. ☐

QUOTE OF THE MONTH

> *"It's like having people sit on tacks. It's hard for them to think of anything else while they're doing it."*
>
> *—David Morgenthaler, managing partner of Morgenthaler Ventures, on why the wrong compensation system can be destructive*

FINANCE

LESSONS

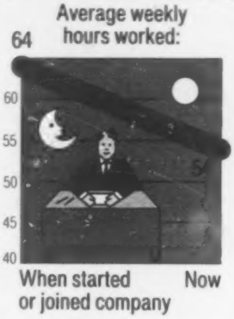
You probably won't improve a losing operation unless you can get your managers, especially ones who don't usually think in bottom-line terms, to understand the financial consequences of every decision they make. And Ken Hendricks, CEO of American Builders & Contractors Supply Co., has found a dramatic way to do just that. He educates his people with Monopoly money.

Hendricks routinely acquires wholesale outlets operating in the red and tries to turn them around. To help his managers understand where the money's going, he sets up two shoe boxes, one representing the center's budget, the other its expenditures. As the managers move play money into the budget box, they see the consequences of plans gone awry—poor maintenance, for example, or overstaffing. The consequences are personal, too; the managers' compensation is determined by the center's performance.

"When a tire blows on one of our trucks, it costs you in profitability and profit sharing," says Hendricks. "It hits the managers like a ton of bricks. This gets people to see reality." ☐

BEHAVIOR

SMARTER?



Source: INC./*USA Today* survey

CEOs of INC. 500 companies report they now spend 54 hours a week managing their businesses—16% less than when they started.

LAW

HOW NOT TO INFRINGE A PATENT

Don't assume you're personally off the hook when your company infringes somebody else's patent. Stuart A. Schwam, president and 50% shareholder of Railroad Dynamics Inc. (RDI) learned that the hard way. When RDI couldn't ante up $2,182,986, the amount a court awarded A. Stucki Co. for patent infringement, Stucki sued Schwam himself—and won.

How do you make sure it won't happen to you? "Stay out of the lab," counsels William Bunker, an intellectual-property lawyer in Newport Beach, Calif. "If you take special care to delegate any related tasks, you'll be insulated." That means you should avoid participating directly in project-design or manufacturing-procedure decisions. "When possible, delegate those responsibilities to a nondirector or officer," Bunker explains. Also, directors and officers should obtain a corporate-indemnity agreement in the few states where it's now allowed (New York, Delaware, and California), and obtain patent indemnities and noninfringement opinion letters from third-party product suppliers. And, of course, adopt and enforce a written policy against infringing patents and other intellectual property. Says Bunker, "Few patent cases come as a complete surprise." ☐

PUBLIC RELATIONS

HI. NICE TO MEET YOU. HERE'S MY CREDO.

Smart managers never miss a chance to explain what their company stands for. Do you guarantee the lowest prices? Fastest service? Biggest selection? Why not tell the world about it—right on the back of your business card?

That's what Thomas L. Venable, chairman of Spectrum Control Inc., has done—and he claims that it has helped distinguish his firm from his competitors.

Venable places a 45-word message, entitled "Spectrum's Quality Response Process," on the back of each employee's business card. It stresses that the company is "committed to quality performance" and strives to do each job "error free."

"These goals are important to us," says Venable, whose Erie, Pa., company ensures that differing technological devices will work together.

He says the cost of adding the message is small, since 50,000 cards—each containing the company's name and address on the front and the message on the back—are printed at a time. The cards are then customized to include the employee's name, job title, and telephone number. ☐

Reported by Sara Baer-Sinnott, Paul B. Brown, Joshua Hyatt, Teri Lammers, Martha E. Mangelsdorf, Bruce G. Posner, Stephen D. Solomon, Paul Thomas, and Ellie Winninghoff

AN APRIL 15 FOLLOW-UP

If you've underreported interest income or dividends, act now and avoid the penalties

INTEREST AND DIVIDENDS

Did you report all of your interest income and dividends on your tax return? If not, you have a problem. The IRS document-matching program is in high gear, and interest income and dividend payments reported on Form 1099 are now fed into IRS computers.

The IRS will not only catch you, but will produce a notice of unreported income, the additional tax due, interest on the tax, and penalties. Negligence penalties are 5% of the additional tax and 50% of the amount of the interest due on the underpayment. The IRS makes a presumption of negligence that can be overcome only by "clear and convincing" evidence to the contrary.

If you filed your return last month and failed to report such income, you should file an amended return immediately. Although you will have to pay the tax and interest, you should be able to avoid the penalties.

—Irving L. Blackman

Top five errors found by IRS computers on Form 1040*
(Form completed by paid preparer)

Wrong Social Security number	**53.8%**
Illegible Social Security number	**16.1**
Income amounts not from W-2	**11.0**
Illegible name	**10.3**
Name on wrong line	**8.8**

*New England and upstate New York, 1986

Source: IRS Program Analysis System

PUTTING YOUR IRA AT RISK

When you fail to pay your personal taxes, the IRS can put a lien on your bank account, credit union account, even stocks and bonds. Now, it seems, your IRA or Keogh plan can be put at risk as well.

Last year in Miami, a collection agent discovered that a delinquent taxpayer had money in a Keogh plan, and served a notice of levy on the bank custodian. The bank sent a cashier's check to the IRS for the specified amount. The next year, the audit division of the IRS sent a deficiency notice to the taxpayer: the amount taken from his Keogh was taxable income. He also owed a penalty for a "premature" distribution from his retirement plan because he had not reached the age of 59½.

If a Keogh or IRA is pledged or assigned and, as a result, is paid to a third party, the owner is treated as if he had received the distribution. And payment of federal taxes by means of a levy is an "assignment" of income, albeit an involuntary one. So the tax court held that the income was taxable. Since the withdrawal was involuntary, however, it refused to enforce the penalty asserted by the IRS. That, it judged, ". . . would be like throwing salt into a wound."

—Jay Brandzel

AND IF THE FEDS OWE YOU?

Are you one of those people who thinks you can put off filing a return because the government owes you money? If so, think again. In a recent letter ruling, the IRS took quite a different approach.

The situation was this: early in 1986, a taxpayer calculated that he owed $14,000 on his return for 1985, but since $14,200 had been withheld, he thought there was n[illegible]ason to file a return. So far as he was c[illegible]ned, IRS penalties were calculated [illegible]*id* taxes, and his taxes were paid.

This year, the IRS sent him one notice for failing to file, and then another. So he did up a return, showing a balance due him of $200, and in a nasty letter asked for interest from April 15, 1986. Instead of a check, he received a bill for $3,300—25% substantial underpayment penalty less the $200. Since no return was filed until the IRS contacted the taxpayer, it assumed that the tax shown on his return before the contact was zero. The tax that should have been shown was $14,000, and thus the penalty. While this treatment has been a traditional—and legitimate—course of action when dealing with tax protesters who filed no returns and paid no taxes, that is not the situation here. Ultimately, we may need a new court decision to resolve this issue, but in the meantime, filing a return is your best course of action.

—J.B.

TAPING YOUR AUDIT

If you've ever had the urge to tape your IRS audit, but were hesitant to ask, go ahead. The IRS is willing to permit an audiotape or a stenographic recording of the audit.

Videotaping, however, is out. That was decided in a case brought before the court of appeals. The taxpayer claimed that a video would offer advantages for recording documents shown in the audit and the appearance of people before the auditors. The court sided with the IRS, and the basis of its decision was that the refusal of the IRS to allow videotape did not violate the taxpayer's rights. After all, the documents to be videotaped were his own—he was free to make copies. And appearances could be noted on a transcript. But the case does confirm your right to make an audiotape.

—I.L.B.

GIFT-TAX RETURNS

Generally, the statute of limitations on tax returns is three years. After that time, the IRS can't audit your return or attempt to increase your tax. One exception is a fraudulent return. Another is the gift tax.

For tax purposes, gifts are valued at fair market value at the time they're given. Suppose, for instance, you make a gift of stock in your company to your son in 1988 and you file a gift-tax return stating its value to be $200,000. Since you get an annual exclusion of $10,000, your taxable gift is only $190,000. And since the unicredit (the once-in-a-lifetime amount that can be gifted without paying any tax) effectively allows an exemption of $600,000, your 1988 return will show "no tax due."

Say that four years from now you've made more gifts, used up your unicredit, and owe a gift tax. The IRS can go back and *revalue* the 1988 gift even though the three-year statute of limitations has run out. That's because it has ruled that the statute of limitations does not start from the date you file the return, but from the date the tax is paid in real dollars. So hang on to those gift-tax returns.

—I.L.B.

Irving L. Blackman, specializing in closely held businesses at Chicago-based Blackman Kallick Bartelstein, certified public accountants, speaks and writes on tax issues.

Jay Brandzel, CPA, is national tax partner of Laventhol & Horwath, based in its executive office in Philadelphia.

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Inc.

THE MAGAZINE FOR GROWING COMPANIES
JUNE 1988
$3.00

GEARING UP FOR BUSINESS IN THE '90s

Helping Companies Adapt to an Aging Population

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The Anatomy of a Start-up

KEN DYCHTWAL
OF AGE WAVE IN

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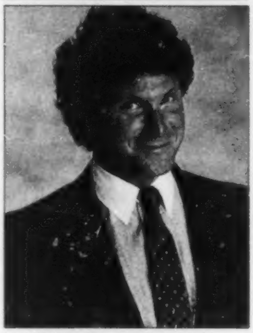

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COVER PHOTOGRAPH
by
Tom Zimberoff

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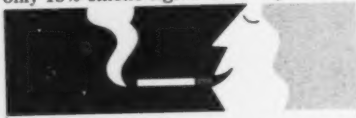
INSIDER

IS YOUR COMPANY HAZARDOUS TO YOUR HEALTH?

We all know that it's tough to run a fast-growing business, but can it threaten your health as well? To find out, we conducted a survey of INC. 500 CEOs in conjunction with General Health Inc., in Washington, D.C., which was itself an INC. 500 firm in 1985 and '86. The results: as hard-driving as these people are, they tend to be a bit *healthier* than a comparable group of people who are not CEOs.

For one thing, the INC. 500 group is relatively smoke-free. More than half of those responding have never smoked, and only 15% smoke cigarettes today. In addition, the CEOs say they exercise an average of four hours a week.

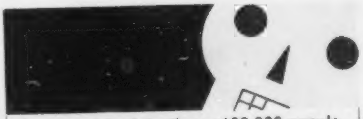


Cigarette smoking:	INC. 500	General Population
Never	51%	43%
Former	34%	27%
Present	15%	30%

They do, however, have a weakness for food and drink. Despite all that exercise, 70% of the respondents weigh more than they should. Almost one-third, moreover, are moderate to heavy drinkers. And, not surprisingly, 78% show clear signs of Type-A tendencies—the driven, competitive behavior that many studies have linked to stress and heart attacks.

Prevalence of Type-A Behavior:	INC. 500
Some Type-A Behavior	22%
Definite Type-A Tendencies	21%
Type-A Personality	57%

All in all, though, the INC. 500 CEOS in our sample lead lives that are slightly more healthy than average, as shown in the 10-year mortality table. Compared with their nonentrepreneurial peers, they run less risk of dying over the next decade from most major causes. One exception: death by automobile accident. Apparently, it's in their cars that successful entrepreneurs let their risk-taking tendencies run wild. *—M.E.M.*



Average risk of death per 100,000 population in next 10 years:

	INC. 500	Matched group*
By heart attack	2,113	2,541
By stroke	292	354
By cancer	1,903	2,383
By automobile accident	454	222
By cirrhosis	655	292
By pneumonia	137	126
Total mortality risk, all causes	7,883	8,223

*A group from the general population, matched with the INC. group by age, race, and sex

THE ENTREPRENEURIAL CHIEF

This year, Phillip J. Stevens did what many entrepreneurs only talk about doing. Having achieved wealth and power, he decided it was time to give something back. So he sold Ultrasystems Inc., the $159-million engineering company he had founded in 1969, and began devoting his full energy to a cause he believed in: securing justice for his people, the Sioux.

Entrepreneur Phillip Stevens
Hero or takeover artist?

To Stevens, justice is a matter of $3.1 billion and 1.3 million acres in South Dakota's Black Hills—land that was stolen from the Sioux, including his great-grandfather, back in 1877. He sees the land and the money as an enormous debt on the national balance sheet, and himself as the bill collector. When he was named special Sioux chief at a ceremony this spring, the press loved it. The public loved it. In fact, just about the only people who didn't love it were many of the Sioux themselves.

Stevens has become a center of controversy within the Sioux nation. He has his supporters, but others consider him a pretender chief and resent his take-charge entrepreneurial style. "The head of a company is, in effect, a dictator," says Gerald Clifford, coordinator of the Sioux's Black Hills Steering Committee. "That's how this man is trying to deal with the Sioux tribes. He's approached this like a corporate takeover. . . . That's not the way it works at this level."

Style aside, Sioux leaders like Clifford fear that Stevens may undermine support for a bill pending in Congress to return the land, and to provide the Sioux with more than $160 million in compensation. "The only thing he's accomplishing so far is jeopardizing the bill and disunifying the reservations," says Ben Black Bear, another Sioux involved in the steering committee. The dispute has grown so acrimonious that one group filed a complaint in U.S. district court, charging Stevens with, among other things, impersonating an Indian.

Stevens, who says he is three-sixteenths Sioux, is undeterred by his critics, attributing their skepticism to past experiences with duplicitous outsiders. As for the bill in Congress, he thinks $160 million in compensation is far too little, since it is based on simple, instead of compound, interest over 111 years. With the confidence of a self-made man, Stevens believes he can lead the Sioux to a larger victory by convincing the government to pay the full $3.1 billion. But, unless he can unify the Sioux behind him, he may face a long, lonely battle. *—M.E.M.*

ILLUSTRATIONS: NIGEL HOLMES

THE NEW ECONOMY

BUYER BEWARE

When growth companies change hands, both buyers and sellers are in for a surprise

BY DAVID L. BIRCH

FIGURE 1

GROWTH OF ACQUIRED AND NONACQUIRED COMPANIES, 1981–85

Company Groups by Total Two-Year Growth	Average Annual Growth Rate of Acquired Companies			Average Annual Growth Rate of Nonacquired Companies		
1981–83	81–83	83–85	change	81–83	83–85	change
More than 15%	30.4%	1.6%	–28.8%	29.8%	2.6%	–27.2
10–15%	5.9	1.8	–4.1	6.1	1.5	–4.6
5–10%	3.6	–1.0	–4.6	3.7	1.4	–2.3
0–5%	1.4	2.3	0.9	1.5	0.9	–0.5
Decline	–18.0	4.1	22.0	–17.3	4.8	22.1

Growth not for sale: what happens to companies that get bought

As their acquirers have learned, fast-growing firms usually don't keep growing fast.

For many growth-company owners, finding an acquirer is the ultimate dream. How better to cash out? Few companies ever go public (only 5% of all corporations are publicly held). And not many growing businesses are logical candidates for transfer to the next generation under terms that include a cash buyout of mom or dad. So getting someone to purchase all or most of your company is the easiest way to harvest what those years of hard work have sown. Especially if you want to stay on after selling out, happy for the cash in the bank but eager for the chance to run your company with resources you never had before.

Unfortunately, few company heads look beyond the actual acquisition and think about what will happen to their businesses after they've been acquired. And from what we can see, relatively few *acquirers* look much beyond the acquisition decision either.

So we decided to do exactly that. For those thinking of shopping their companies and, too, those thinking of buying, our findings will provide a peek into the room on the other side of the acquisition door. We looked into our Cognetics database at two different periods of time: once in the 1970s and once in the 1980s. In the process, we studied 10,500 acquired companies and contrasted their experiences with those of 1.4 million comparable companies that were not acquired. The results for both periods are virtually identical, so we'll focus on the more recent one, in the 1980s.

From the start, we had a premise: the wave of mergers and acquisitions sweeping the country must be based on benefits that a large company can bring to a smaller one. The larger company would have the resources—capital, marketing expertise, and so on—needed to leverage the bright idea embodied in the smaller one, and to keep the smaller one afloat in hard times. Following this basic logic, we might expect a real surge of growth in the smaller businesses after acquisition—a surge that would carry them beyond the still-struggling, resource-starved companies that never get acquired.

Since growth is the issue, we divided companies into groups based on their growth from 1981 to 1983, then we compared the performance of those that were acquired at the end of 1983 with the performance of those that weren't.

So much for theory. The acquiring companies may have thought they were buying growth that they could accelerate, but in fact what they bought was a huge and sudden slowdown (see figure 1). The average rapidly growing acquired company was growing at a compound rate of 30.4% per year from 1981 to '83. By 1983 to '85, its growth had slipped to less than *one-fifteenth* of that level (1.6%). Fast-growing businesses that stayed on their own also slowed down a great deal (a phenomenon to which we'll turn in next month's column), but they did a *better* job, not worse, of somehow countering the letdown than their acquired counterparts did.

Those few buyers that acquired declining businesses with the hope of turning them around succeeded admirably, but did no better at the turnaround game than the businesses left to their own devices. In fact, nonacquired declining companies were declining slightly less in 1981 to '83 than acquired decliners, and were able to convert decline into growth slightly better.

Well, the argument might go, maintaining growth is a tough game any way you play it. At least the acquired businesses will be better protected from failure with all the acquiring company's resources behind them. Wrong again. Acquired companies are much more likely to be liquidated than those that toughed it out on their own, regardless of how well either group was doing in the previous two years (see figure 2).

As I mentioned earlier, there is nothing new, or unique to the 1980s, about these patterns. Nearly the same results show up among the 1969 to '76 data.

(continued)

FIGURE 2

FAILURE RATES OF ACQUIRED AND NONACQUIRED COMPANIES, 1981–85

Company Groups by Total Two-Year Growth	Acquired Companies That Closed	Nonacquired Companies That Closed
1981–83	83–85	83–85
More than 15%	11.2%	8.1%
10–15%	9.6	5.3
5–10%	5.3	5.0
0–5%	6.7	4.5
Decline	14.6	11.4

Acquired companies are more likely to be liquidated.

Deep pockets haven't kept growth companies afloat.

CHARTS: NIGEL HOLMES

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WOMEN IN BUSINESS

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There are some lessons in all this. The young, growing company dreaming of acquisition as a logical tactic in its campaign of conquest should prepare for a letdown. You can't expect your baby to be the same in the hands of different parents. In general, your baby's growth is likely to be severely stunted. There's even a good chance the baby will be thrown out with the bathwater. So make sure you get a good price when you sell, because it might be the last satisfaction you get.

If you are in the business of acquiring businesses, don't count on being able to buy growth and innovation. Statistically, at least, buying it appears to kill it.

There are many logical arguments about how added resources and logical fit with a new parent will send a smaller company spiraling to new heights. But the arguments in most cases turn out to be wishful thinking, not sound theory. The logic is overridden by the loss of the original spirit and drive that made the company grow in the first place. You must think long and hard about how to retain and nurture the innovative spirit of the acquired company rather than to squash it with "professional management" or big-company procedures. It can, and has, been done—but not by accident, and not very often.

From a broader perspective, it might seem that all of the above adds up to an overwhelming indictment of mergers and acquisitions. Not at all. Remember that the number of acquired companies, and the jobs associated with them, are almost insignificant (less than one-tenth of 1% per year). For every company that is acquired, there are literally thousands that dream about it. It's what got many of them started, and it's what keeps most of them going.

Acquisition is a pot of gold at the end of the rainbow, and for many it's the only pot. To remove the pot because some of the gold is a little tarnished would be a huge mistake. It would remove the main incentive that drives the majority of growing, innovative companies in the United States. Also, what happens to acquired companies isn't that much worse than what nonacquired companies manage to do to themselves.

A more useful conclusion is that companies should be realistic about what can be achieved through acquisition, and that both parties to a transaction should think carefully about how to make the union work. It's usually a marriage of clashing cultures. And it requires more than the usual amount of sensitivity and effort if it is to succeed. ☐

David L. Birch is president of Cognetics Inc., in Cambridge, Mass., and director of MIT's Program on Neighborhood and Regional Change.

HANDS ON

A Manager's Notebook

PERSONAL BUSINESS

KEEPING PRIVATE LIFE PRIVATE

Among the problems faced by company builders who also happen to be parents is what to tell the staff when family matters intrude. Employees can develop both envy and disrespect when they see their boss leaving work on child-related errands—and as a result the office atmosphere can suffer.

Nancy Creel, vice-president and cofounder with her husband, Wes, of Creel Morrell Inc., in Houston, has found a simple solution: "When I need to see my children, I just say I have an appointment.

"I have a sense of privacy that is critical to keeping the children and the venture separate and on an even keel," says Creel, who now has three children under age six. "It's to no one's benefit at the office to know I'm in a pediatrician's waiting room."

By preventing the issue from surfacing, she says, jealousies and concerns about her professional commitment are never aroused, and she never needs to do the sort of thankless explaining that many founders are forced to attempt. "What people don't know, of course, is that I spend time on work at home and I don't ask for credit for that. The credits and debits balance each other out." ☐

MANAGEMENT

BOARDROOM EDUCATION

If you're like many CEOs, your idea of a good board of directors candidate is the no-nonsense, battle-hardened executive you see yourself one day becoming. That's fine, but to judge by Joe Crugnale's experience, maybe you should check out ivory-tower intellectuals, too. An out-of-the-mainstream professor may have a wonderful view of your business's marketplace.

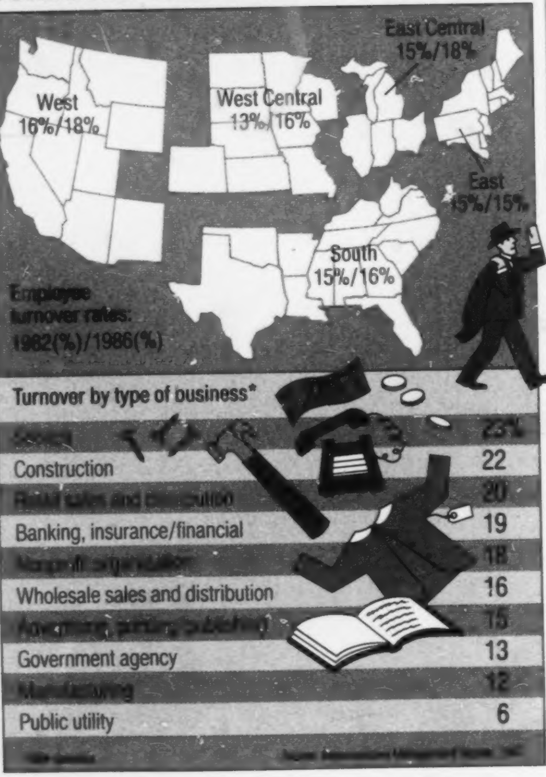
Two years ago Crugnale, CEO of Bertucci's and Bailey's, two small regional restaurant chains, recruited Bert Mendelsohn, a professor of marketing at Boston College who specializes in tracking small food-service chains.

"His classes do all my market research and provide me with a lot of information on the competition," says Crugnale. First hired as a consultant, Mendelsohn immediately helped Crugnale with the nuts and bolts: understanding an operating statement, and determining the ratios needed to make his restaurants more competitive.

In short order, Mendelsohn was elected to the board to help plan long-term strategy. For someone like Crugnale, who runs his business primarily by intuition, the mercilessly logical approach of an academic can serve as an effective counterbalance. ☐

PERSONNEL

TURNOVER TROUBLE



Turnover by type of business*	
Service	23%
Construction	22
Retail sales and distribution	20
Banking, insurance/financial	19
Nonprofit organization	18
Wholesale sales and distribution	16
Advertising, printing/publishing	15
Government agency	13
Manufacturing	12
Public utility	6

[illegible]

COMMUNICATIONS

JUST THE FAX

If your business doesn't need a facsimile machine every day, but you're convinced that using one could help make a big sale or meet tough deadlines, you may be in luck. A number of printing shops and delivery services are now hustling to meet that demand.

Sir Speedy Inc., a franchise chain of 820 print centers, is one of them. To help the fax have-nots do business with the haves (the number of facsimile machines in use will double to 1 million in the next three years) Sir Speedy has developed Faxshare.

By joining for a $12 monthly fee, you'll cut in half the cost of faxing through Sir Speedy—from $10 to $5 for the first five pages, and down to 50¢ for each additional page. As a member, you get pickup and delivery of your jobs for free, and you can put your Sir Speedy fax number on your business card.

The program's toll-free number is (800) FASTFAX. ☐

MANAGING PEOPLE

THE BIG-SHOT TREATMENT

To encourage his employees to do a good job, Ken Hendricks tries to make each one of them feel like the most important person in his company.

Hendricks, CEO of ABC Supply Co., which runs wholesale roofing and siding centers throughout the country, had a serious problem with truck maintenance two years ago. Instead of issuing a memo, Hendricks flew his mechanics to company headquarters in Beloit, Wis. "That showed the seriousness of it," he says. "If I had sent a memo out, it would have been like putting a notice on the bulletin board."

The mechanics loved it, and Hendricks was so pleased with the results that he held another meeting with them this May. ☐

DIAGRAMS: CYNTHIA DAVIS

HANDS ON

QUOTE OF THE MONTH

> *"Need furniture cheap? Just watch VC-backed start-ups—they've always got the poshest stuff—and wait for the liquidator. We get our best equipment that way."*
>
> *—David L. Birch, president of Cognetics Inc., on outfitting your office on a budget*

MARKETING

IF IT AIN'T BROKE, IT'S AN ASSET

In need of a fresh competitive edge? Maybe your company already has one, and you just haven't looked for it hard enough. Take the case of Steve Rondel, president of $1.8-million Advanced Products & Technologies Inc.

Rondel was standing in the mail room of his Redmond, Wash., business when he realized that very few customers were returning the portable coffee makers, hair dryers, and other travel products he makes.

Then the light bulb went on. The reliability of his company's products could be exploited. Why not offer a five-year warranty as a way to differentiate Advanced Products from the pack? Given the low return rate, what could it cost?

Virtually nothing, as it turned out, and the payoff can be enormous, especially if yours is a higher-priced line. The warranty, says Rondel, tells consumers the product is worth it. ☐

OPERATIONS

THE DIRTY WORK

Next time you sign a hefty check to an outside janitorial or maintenance service, think about addressing it to your own employees.

When Harry Brown, president of Erie Bolt Corp., in Erie, Pa., cut his janitorial staff to reduce payroll, he thought of contracting the work out. His employees had a better idea—they wanted to bid on the jobs themselves. Several employees said they would like the added income and would be willing to do the work after hours and on weekends. In fact, they would undercut the outside contractors' prices. Brown decided to give them a shot.

Now, the president of the union does Erie Bolt's snowplowing, and three employees and one company retiree come in regularly to clean the shop and maintain the equipment. They also paint and do minor repairs.

"We're paying less, and there is no doubt that we're getting better service," Brown said. "The employees know the place better, and if they don't do a good job, they know the other employees will get on their case." ☐

BUSINESS TRAVEL

NEWS YOU CAN USE

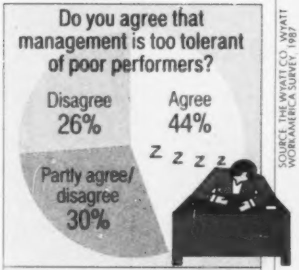
You could make a full-time job out of keeping up with frequent-flyer and hotel/motel discounts. Look into an eight-page monthly newsletter called *Travel Smart for Business*, and maybe you won't have to.

Travel Smart alerts you to the latest air, hotel, and rental-car rates in the United States and around the world. It also includes safety tips, currency statistics, valuable information about the circuslike airline industry, and city reports on hotels, restaurants, tours, museums, and clubs worth checking out. One recent issue reported on the likelihood of your being involuntarily bumped, airline by airline. (The odds range from 0.1 passengers for every 10,000 booked on American Airlines to 17.2 on Pan Am.)

For more on *Travel Smart*, write Communications House Inc., 40 Beechdale Road, Dobbs Ferry, NY 10522. It costs $125 per year. ☐

OPINION

JUDGMENT



SOURCE: THE WYATT CO., WYATT WORKAMERICA SURVEY, 1987

Nearly half of those surveyed believe that managers are too tolerant of poor performers.

RECRUITING

HELP ON THE STREET

When you need unskilled or entry-level employees, one way to find them is embarrassingly simple: pay attention to the general public you deal with every day. Blair Brown, CEO of Charrette Corp., a chain of architecture- and design-supply stores based in overemployed metropolitan Boston, considers everyone he meets in passing as a possible Charrette staff member. "I told my personnel department they have to develop guerrilla strategies so the business can grow," Brown says. To date, the tactic has paid off in the hiring of eight people—good results, considering its beginnings.

When Brown's car broke down during a late-night snowstorm some winters ago, he walked until he found an off-duty taxi. The sympathetic driver was nice enough to interrupt his coffee break and take Brown home. Brown didn't simply acknowledge the extra effort in the cabbie's tip. He offered him a job as a driver. Today, that driver is a marketing specialist.

"I like to see people and meet the public," says Brown. "By chatting with the taxi driver I found out he was a graduate of Amherst College and didn't have any plans." Brown also makes it a rule to forgo the self-serve pump at gas stations. Unpinched pennies at the pump have rewarded him with one especially courteous attendant who was ready to come in from the cold. ☐

Reported by Sara Baer-Sinnott, Leslie Brokaw, Paul B. Brown, Teri Lammers, Amy Schulman, and Stephen D. Solomon

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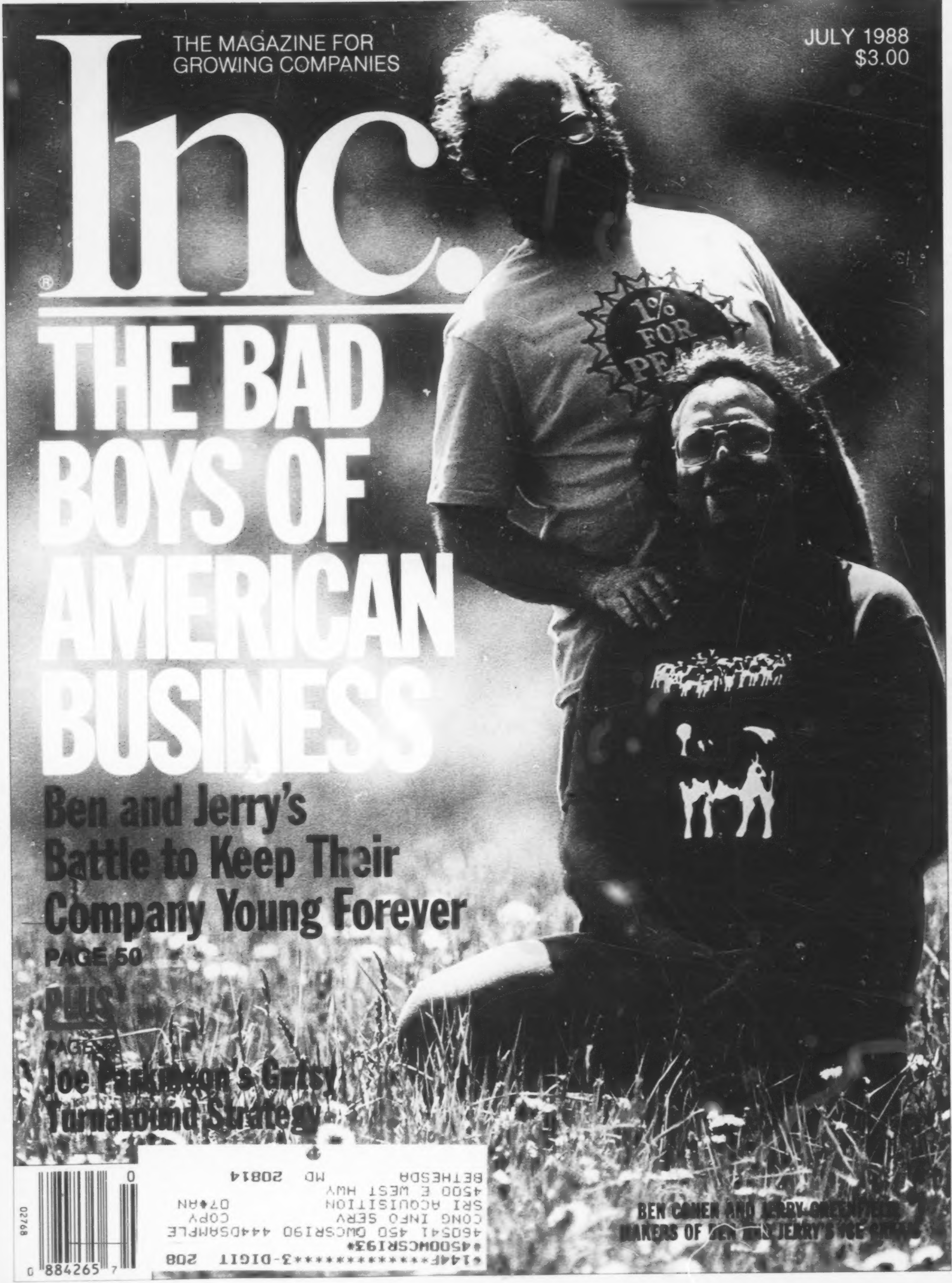

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THE BAD BOYS OF AMERICAN BUSINESS

Ben and Jerry's Battle to Keep Their Company Young Forever

PAGE 50

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Joe Parkinson's Gutsy Turnaround Strategy

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by
Seth Resnick

INSIDER

WHO SURVIVES?

The common wisdom has long held that four out of five new businesses fail within five years. Once again, the common wisdom is wrong, at least according to a new study by Bruce Kirchhoff, an entrepreneurship professor at Babson College, and Bruce Phillips, an economist with the Small Business Administration's Office of Advocacy. They report that 39.8% of new businesses survive at least six years. Among growing companies, moreover, the survival rate skyrockets to more than 65%.

Working from an extensive SBA database derived from the Dun's Market Identifier file, Dun & Bradstreet Corp.'s marketing database of 8.5 million companies, the researchers found the lowest survival rate (26%) among start-ups that had less than five employees at birth and then did not grow. If a small start-up added as little as one job, however, its chance of survival more than doubled. In general—and not surprisingly—the survival rate tended to be higher among companies that had created more jobs.

As for the companies that don't make it, Kirchoff is reluctant to call them failures, preferring the word "exits" instead. Failure, he maintains, is an inaccurate and loaded term, since a significant but unknown portion of disappearing small businesses are closed without losses by their owners, who reorganize or move on to other occupations. The distinction matters, according to Kirchhoff, because the stereotype of frequently failing small companies makes policymakers suspect of start-ups as a source of jobs.

START-UPS THAT MAKE IT

A. SIX-YEAR SURVIVAL RATES

Percentage of Companies Surviving After Six Years

Size of Company at Birth	No jobs added	1–4 jobs added	5–9 jobs added	10+ jobs added	Overall
1 to 4 employees	26.0%	65.0%	75.6%	77.5%	37.2%
5 to 499 employees	34.1	72.4	75.3	79.2	49.2
Overall	27.5	66.3	75.5	78.4	39.8

B. GROWTH AND SURVIVAL

Percentage of Companies Surviving After

Employment Growth	Two Years	Four Years	Six Years
No jobs added	70.5%	37.5%	27.5%
1–4 jobs added	92.0	80.9	66.3

The table at the top shows the percentage of companies surviving six years after their founding. As you can see, the lowest survival rate (26%) was among companies that started with one to four employees and did not add any new jobs. The table at the bottom compares the survival rates over time of no-growth and low-growth companies.

Still, if you'd prefer to be among the surviving, rather than the exiting, you'd better hope that growth is in your future. Not that you should rush out and start hiring. Kirchhoff and Phillips don't say whether growth leads to survival, or vice versa. Maybe that will be the next study. *—M.E.M.*

DIVINE INTERVENTION

We know many companies that have tried to gain an edge by seeking out psychics, handwriting experts, and management gurus. But a few companies are turning to a higher authority: God. They are hiring former priests and ministers and—in so doing—getting managers whose people skills are, well, heavenly. As for the ex-preachers, they say their religious training is often exactly what's needed.

Paul Pieschel, now vice-president of franchise development for Dayton-based Moto Photo Inc., is typical. "When franchisees get into trouble, you can often trace it to a personal problem," says the former priest. "The marriage isn't going well, or there's an alcohol problem, or whatever. Given what it takes to train a franchisee, it makes a lot more sense to try to solve the problem than to terminate the relationship."

Garry Ritzky, personnel and risk manager for Turner Bros. Trucking Co., in Oklahoma City, agrees that his clerical background has helped. He is often the one who appears in court when Turner Bros. is involved in litigation. He says lawyers tend to go easier on former United Methodist ministers. "They're a little less eager to tear me limb from limb." *—Paul B. Brown*

CAT POWER

We've told you about the youth market, the senior market, and ethnic markets. But there's one market we seem to have overlooked—felines. That didn't stop some overly zealous employees of Seaview Subaru, in Westbrook, Conn.: according to a complaint filed by the state attorney general's office, Seaview "sold" Subaru cars to any number of made-up customers, including Sidney Chatpuma and Maxwell Puma, who happened to be one employee's cats.

The alleged purpose? To allow the dealership to file false claims for warranty work on the unsold cars with the auto manufacturer. (The cars were later sold to real customers.) That, at any rate, is what the Connecticut state police charge. Then again, maybe the cats were just good customers. . . . *—M.E.M.*

ILLUSTRATION: MIKE REED

WHAT GOES UP...

Volatility creates ulcers for entrepreneurs and headaches for people who deal with them, but it's what keeps our economy strong

BY DAVID L. BIRCH

Most U.S. companies can be counted into one of only two camps. One is income oriented, the other entrepreneurial. The former camp houses all those enterprises created primarily to provide an alternative to working for someone else. These income businesses reach a steady employment level early in their history and, mostly, stay there. They are the local drugstores, flower shops, or garages. Their volatility—their tendency to grow or decline—is very low, usually zero.

Not so the occupants of camp number two. If one learns anything by following the individual fates of 12 million establishments over 18 years, it's that entrepreneurial businesses—growth companies—never just grow and rarely just decline. They do both, sequentially. As you might know if you run such a company, they seem strapped to a roller coaster, and they can't get off.

Cases differ, of course, but the patterns don't. Entrepreneurial businesses stumble onto something, get a big boost out of it, and grow significantly. Then, as soon as they think they're rounding third base, someone always seems to move home plate. Maybe there's a change in their economic world. Other competitors close in on them. A new technology eliminates the value of their market niches. Or perhaps they simply get cocky, or lazy, and lose track of the direction in which they were headed.

Whatever the cause, the inescapable fact is that the most likely result of any company's rapid growth is a slowdown—even outright decline is quite common. But entrepreneurs are not stupid; in most instances, they learn from their mistakes or misfortunes. They reduce staff, develop new products, shackle costs, or crank up their marketing and selling machinery. More often than not, their companies take off again.

This chart makes the phenomenon plain: the best predictor of a big company's decline is previous rapid growth, the best predictor of rapid growth is a previous big decline, and stability is tied to a big decline as the best predictor of death. The company that tries to step off the ride and stand still is much more likely to go out of business than the company that hangs on through the ups and downs. And curiously enough, the phenomenon appears to be independent of company age, size, or industry.

PATTERNS OF EMPLOYMENT GROWTH AND DECLINE, 1983–87

Companies Grouped by Their 1983–85 Performance	And How They Fared, 1985–87					
	Rapid growth	Slow growth	No change	Small decline	Big decline	Close
Rapid growth	8.8	11.6	53.9	11.4	6.1	8.2
No change	4.9	3.9	72.9	4.5	1.9	11.9
Big decline	15.3	3.2	63.8	3.2	2.4	12.0

Volatility occurs independent of company age, size, or industry.
By understanding volatility, you can prepare strategies for dealing with it.

Such volatility—and the democratic way it afflicts all manner of entrepreneurial business—prompts a question: *why?* Don't these companies ever learn from the past?

But the question is probably unfair. All the numbers assert that growth is inherently volatile. It is filled with uncertainties and unknowns that require companies to make constant adjustments—movements both forward and backward—simply to stay alive.

Still, if you're running an entrepreneurial business, there are lessons in this. By understanding volatility, you perhaps can make the terrain between peaks and valleys less steep.

You might think a little bit more about the business environment around you—try to anticipate what might clobber you next, and get ready for it. There's a tendency during periods of growth to begin thinking that success has resulted from your actions alone, independent of events in the outside world. Yet usually there is a good chance that the niche you've found, and are thriving in, was created as a result of some broader force—a baby boom, a strong dollar, rising oil prices, a generally vigorous economy, low interest rates, a strong stock market, or an aging population.

But things change, often when you're certain they won't. Nobody in Houston thought Houston would stop growing. No one thought the stock market would crash. Very few people realize that the baby boomers have stopped entering the work force (they're all in it now), and few have anticipated the consequences for office construction, the auto industry, or the appliance market.

So you should think carefully about what your success, or failure, is attributable to, what will happen if those circumstances change, and how you can prepare for (and better still, capitalize on) that change.

You might also plan better—look ahead more prudently and in greater detail at your cash flow; cut expenses before you run out of money. Realistically (and certainly statistically), most of you will not do these things until it is too late, and you will ride the roller coaster along with everyone else.

But if you think *running* these companies is tough, try selling to them. Their needs, like their fortunes, are highly volatile. One minute they want to double their office space, the next they are walking away from their leases. On the up cycle, they are buying or leasing equipment like crazy, only to find themselves with excess capacity (and a short time later, no ability to pay for it). As they grow, they need money; as they decline they struggle mightily just to meet their fixed financial obligations.

Yet you cannot afford to ignore these companies as a market because, on the average, they constitute most of the net growth in the economy. So you will have to learn how to tailor your product or service to be inherently suited to volatility. Perhaps you can offer lease options as well as a straight purchase. Maybe you can create flexible plans through which you repossess what the growing companies don't need when they don't need it, and provide an ample supply of it when they do.

Because it's likely you extend credit to volatile companies, you're already in the business of financing the downturns whether you have recognized it or not, so you might turn that into an advantage by making cyclical financing a part of your original offer. Whatever you do, if you can't do it so that a volatile company can use it, pretty soon someone else will be serving most of the growth in America.

From a broader perspective, politicians and economic developers view this process with horror. They see the newspaper accounts of layoffs and plant closings all the time, and must deal with each one as a potentially embarrassing statement about the failure of their administrations or programs. It makes them look bad, and, by and large, bad is exactly how they'd describe the phenomenon as a whole. The Europeans, it's interesting to note, are so concerned about volatility that they have in many ways outlawed it.

Yet the fact remains: volatility is healthy. It cleans out bad ideas, out-of-date products, and inefficient people, replacing them with new ideas, products, and services. You can't glue the leaves on the trees—as the Europeans have tried so hard to do. You have to recognize failure for what it is and let it drain out of the economic system.

If you don't allow failure an escape route, you will simply accumulate it in your existing institutions—with disastrous consequences. Over the past 15 years, in the face of a baby boom of its own, Europe has increased its job base by only 1.1%—*one-thirtieth* of the comparable growth in the United States.

As a nation we cannot, and should not, want to stop failure from happening. The rates of job losses due to volatility vary little from place to place. No area has figured out how to retain jobs. In fact, the healthiest economies in the country have the *highest* company-closing rates and overall job-loss rates, all because of volatility.

We must, however, do a far better job of dealing with volatility's consequences. Our Achilles' heel is the dislocated worker—approximately 20 million people leave their jobs every year. As their skills become obsolete and their ability to land on their feet decreases each time they move, our ability to maintain a healthy economy decreases. Our challenge is thus not to minimize failure, but to turn it into an opportunity for those it affects. ☐

David L. Birch is president of Cognetics Inc., in Cambridge, Mass., and director of MIT's Program on Neighborhood and Regional Change.

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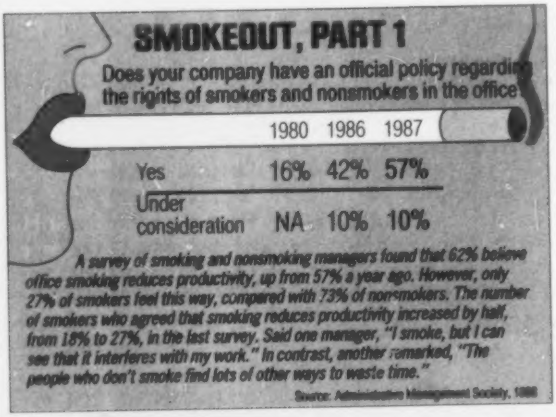
HANDS ON

A Manager's Notebook



SMOKEOUT, PART 1

Does your company have an official policy regarding the rights of smokers and nonsmokers in the office?

	1980	1986	1987
Yes	16%	42%	57%
Under consideration	NA	10%	10%

A survey of smoking and nonsmoking managers found that 62% believe office smoking reduces productivity, up from 57% a year ago. However, only 27% of smokers feel this way, compared with 73% of nonsmokers. The number of smokers who agreed that smoking reduces productivity increased by half, from 18% to 27%, in the last survey. Said one manager, "I smoke, but I can see that it interferes with my work." In contrast, another remarked, "The people who don't smoke find lots of other ways to waste time."

Source: Administrative Management Society, 1988

RECRUITING

HELP AND HOW TO FIND IT

Tired of placing help-wanted ads for secretaries and clerical help only to get a few or no responses? Tired, too, of conceding whatever salary your candidate asks, even if it is more than you budgeted?

Paul Olsen, of Harvard Consulting Group, has this advice: stop running four-line ads in a major paper, where they get swallowed by all the ads surrounding them, and place a large display ad in a few local papers instead. It might cost a little more, but will undoubtedly get more responses.

For Olsen, the tactic has worked even in the extremely tight Boston labor market—partly, he thinks, because he's used the extra ad space to tout "family atmosphere" or "flexible hours." Someone who values a position's intangibles may be more willing to accept a modest salary. ☐

SALES

FRESHENING UP

Have you ever seen a sales force view commissions more as Social Security checks than as a reason to drum up new business? Rick Johnson has. So when he founded BurJon Steel Service Center Inc., in Springboro, Ohio, he made some changes.

Tired of seeing some salespeople live off old accounts, he decided to eliminate commissions on accounts once they have been with BurJon for one year. The client becomes a house account, still serviced by the original rep, but money goes into companywide profit sharing instead of into commissions.

Johnson reads weekly call reports to ensure that house accounts remain well cared for. Though commissions cease, reps who do good work with old clients can receive year-end bonuses—of as much as $10,000—and salary adjustments.

The big money, though, is in new customers, Johnson says. "There is unlimited commission potential here, but you've got to write new business to exploit it."

Overall, the system seems to have worked. The company's revenues have risen from $1 million in 1980 to $20 million in 1987. ☐

MARKETING

UNNATURAL SELECTION

Sometimes the best way to grow your business may be to turn business away. At University National Bank & Trust Co., in Palo Alto, Calif., only checking-account customers may apply for loans, open savings accounts, or buy certificates of deposit. The aim? To build stronger customer alliances with the full range of the bank's services.

"The place where you have your checking account is the place where the relationship is," says Carl J. Schmitt, University National's founder and chairman. "They're the people you think of as your bankers."

The policy has meant turning away $25 million to $30 million in CD business in the past eight years, but Schmitt claims the trade-off has been worth it.

Indeed, customers have responded to the "relationship"—sweetened by such perks as postage stamps at no extra cost and free shoe shines—by putting more and more money into "their" bank. The institution's deposit base grew 40% last year. ☐

PROMOTION

THE FREQUENT-BUYER DISCOUNT

Chances are, your company could benefit from increased customer loyalty just as much as the airlines can. So why not borrow their most effective gimmick? That's what Terry Finn did when he adapted the frequent-flyer idea to One Hour Delivery Service Inc., the courier business he runs in Dallas.

Like the plans it mimics, Finn's frequent-caller program targets the actual users of his service. The secretaries, mail clerks, and receptionists who decide which courier will be summoned are the program's beneficiaries.

Customers accrue one point per delivery, except for downtown deliveries, which are only a tenth of a point. Monthly statements of point balances are accompanied by a four-color flier promoting such popular prizes as chocolates (30 points) and a dozen roses (15 points). "We're putting a lot into this program," says Finn, whose clientele has stampeded to sign up, "but customer loyalty is worth it." ☐

TRAINING

TOGETHER NOW

One of the best ways to make job training bearable is to make it fun. What's more, a training period that's enjoyable can foster camaraderie and introduce newcomers to a corporate culture. Ask Joe Crugnale, who claims to accomplish all of the above every time he opens a Bertucci's restaurant.

Since 1985, CEO Crugnale's company, based in Woburn, Mass., has opened eight eateries, with five more coming soon. For the first two weeks of each launch, he and his top seven corporate managers work side by side with the waiters, bartenders, and dishwashers. After the weeks of tedious paperwork and negotiations, Crugnale claims, the prospect of manual labor is actually appealing. "We kid around a lot with the new hires, and it breaks up the monotony of the legal stuff for the managers. It's the fun part of opening a restaurant."

Managers of the new restaurants love the arrangement. "We know they need help, so we just fill in wherever we can for 15 hours a day," Crugnale says. Then there's the message it sends to employees: "The new hires see us go, go, go, and they work a little harder." ☐

CHARTS: CYNTHIA DAVIS

HANDS ON

LAW

A NONCOMPETE WITH TEETH

The trouble with most noncompete agreements is that they haven't a prayer of holding up in court. They're usually too vague and too restrictive, aiming to provide far more protection than most companies actually need—and far more than most judges will permit. So says Harvey Mackay, chairman and CEO of Mackay Envelope Corp., in Minneapolis.

Mackay's standard agreement has been a success for 25 years—solid in the courtroom and, more important, both effective and fair outside it. Former employees may go to work for another envelope company immediately—with only two restrictions, both of which hold for two years.

Mackay restricts former employees from selling envelopes in only a small area, such as the cities where most of their old accounts were.

Then there's what may be the contract's strongest component: the client list, rendered off-limits after a salesperson leaves Mackay Envelope. "These are valuable accounts," Mackay says. "We want to make it clear that they're Mackay Envelope's property." ☐

> *'What he said changed my strategy on the spot. So I paid for dinner, and he's been paying ever since.'*
>
> *—Bruce McKinney, of Consolidated Dutchwest Inc. (#144 on the 1987* INC. *500), on a competitor who bragged how well mail order was working*

PARTNERS

IN WRITING

You may be hesitant to discuss the potential breakup of your business partnership, fearing that such talk could prove self-fulfilling. But clarifying sticky questions while your partners are on good terms can help prevent some of the tension that leads to business divorce. And if you *do* decide to split, written agreements can assure that everyone's treated fairly.

"There's an assumption by many partners that even if their businesses fail, they'll be partners forever," says attorney David Gibbs, of Boston's Peabody & Brown. He advises clients to set up an agreement detailing how they'd establish the worth of company stock if one partner wanted out, what each would do if a partner should die, and how to govern the sale of stock to outsiders. For small companies, most such agreements cost between $1,000 and $4,000.

And there's a side benefit, says Gibbs. Partners who can't come to terms on how they'd get out of their relationship might want to rethink getting into one. ☐

SMOKEOUT, PART 2

In what areas of the building does your company now ban smoking?

Hallways	32%
Meeting rooms	31
Public areas/reception	30
Storage	28
Open offices	26
Security areas	16
Cafeteria	15
All areas	14
No ban	5

Source: Administrative Management Society, 1988

STRATEGY

ON YOUR OWN

It's impossible to know too much about a company you're on the verge of acquiring, but lots of CEOs miss a chance to discover more: final negotiations. With all the stress that accumulates, it's a good time to examine the staff you're about to take on. How do they handle pressure? Are they hiding anything?

If you want to find out, Lawrence M. Powers says, push aside the lawyers and handle the final negotiations yourself.

Powers is chairman and CEO of Spartech Corp., a Clayton, Mo., plastics manufacturer he has built into a $210-million company with a string of acquisitions—the negotiations for which, he says, have been "very instructive." When the smiling facade across the table breaks down, you learn how people handle conflict. Equally important, you'll be alerted to potential problems within the company if its managers won't yield anything in negotiations. ☐

INTERNATIONAL MARKETING

HANDS ACROSS THE WATERS

What with the constant influx of foreign competition, and the falling dollar, you'd love to beef up your company's presence overseas. But the idea of setting up foreign distribution, hiring a new sales force, and trying to keep an eye on performance "over there" scares you to death. What to do?

Think like Michael Lepiner. The president of Los Angeles–based Telecom Entertainment Inc. has come up with a way to make international business less daunting: find a foreign friend, and have him buy in.

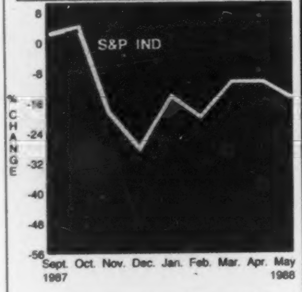
Telecom makes television movies—such as *The Attic: The Hiding of Anne Frank*, which appeared on CBS in April—but Lepiner's approach could work for almost anyone. When developing a movie script with international appeal, Lepiner searches for overseas broadcasters and offers them a piece of the action. In return, he gets more than money—he gains knowledgeable foreign contacts and help with distribution, production, and advertising. There is no need for brokers or other middlemen.

Although in most cases the arrangement works like a joint venture, Telecom often retains the final say, which can be part of the deal's appeal. Also appealing is the potential for reciprocity. Says Lepiner: "When your foreign partners are looking to do business here, they're likely to come to you." ☐

Reported by Sara Baer-Sinnott, Leslie Brokaw, Paul B. Brown, Teri Lammers, and Amy Schulman

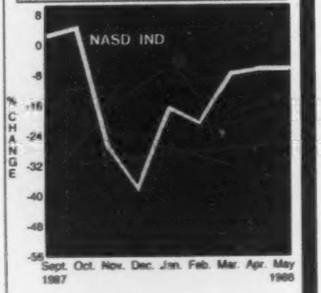
INVESTING IN GROWTH COMPANIES

INC. vs. CONSERVATIVE AVERAGES



All averages start at 0 in October 1987.

INC. vs. SPECULATIVE AVERAGES



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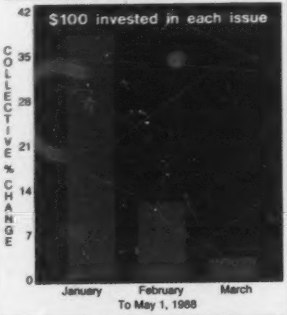
IPOs IN THE AFTERMARKET



INITIAL PUBLIC OFFERINGS: APRIL 1988

O-T-C sym.	Company	Business/product	Offering Size ($mil.)	Offering Price	First aftermarket bid	Underwriter
AC[a]	**Alliance Capital Management L.P.**	Investment adviser	65.00	10.00	10	Donaldson Lufkin
ACD[a]	**American Capital Income Trust**	Closed-end fund	130.00	10.00	10	Smith Barney
AGF[a]	**American Government Income**	Closed-end investment fund	132.00	8.00	8	Piper Jaffray
ICE[b]	**Arctic Alaska Fisheries**	Operates fishing fleet	47.19	13.00	13¼	Merrill Lynch
BZF[a]	**Brazil Fund**	Closed-end fund	150.00	12.50	14¼	First Boston
CEFR	**Cease Fire**	Mfrs. & mkts. fire extinguishers	5.00	5.00	5¼	Whale Securities
CNNR	**Conner Peripherals**	Designs & mkts. disk drives	32.00	8.00[c]	8	Shearson Lehman
CCXLA	**Contel Cellular**	Provides cellular-telephone svcs.	85.00	17.00	17	Drexel Burnham
CLFI	**Country Lake Foods**	Mfrs. & mkts. dairy prods.	13.00	10.00	10	Piper Jaffray
DON[b]	**Donnelly**	Mfrs. automobile mirrors & glass	13.80	11.50	13⅝	Roney & Co.
FSCXU	**Fastcomm Communications**	Mfrs. & mkts. data-comm. prods.	2.00	5.00[d]	5	Alison, Baer
FVF[a]	**Finevest Foods**	Distr. wholesale frozen foods	40.80	12.50[e]	12½	Merrill Lynch
FBI[a]	**First Boston Strategic Income**	Closed-end fund	87.00	12.00	12⅛	First Boston
IBF[b]	**First Iberian Fund**	Closed-end investment fund	27.50	10.00[f]	10	Prudential-Bache
HYP[a]	**High Yield Plus Fund**	Closed-end investment fund	105.50	10.00	10	Prudential-Bache
HUGEU	**Humagen**	R&D of male infertility	3.38	5.00[f]	5¼	Rosenkrantz Lyon
IMTKU	**Information Management Technology**	Provides informational mgmt. svcs.	4.00	5.00[h]	6½	D. H. Blair
KHI[a]	**Kemper High Income**	Closed-end fund	204.00	12.00	12	Paine Webber
OS[b]	**Oregon Steel Mills**	Owns & operates steel minimill	61.50	20.50	22½	Merrill Lynch
PIM[a]	**Putnam Master Intermediate**	Closed-end investment fund	360.00	10.00	10	Shearson Lehman
SKNU[b]	**Skolniks**	Owns & operates restaurant chain	4.00	5.00	4½	Paulson Investments
SEGIU	**Sports/ Entertainment Group**	Sports entertainment svc.	6.00	3.00[g]	3	First Interregional
STFD	**Standard Federal S&L**	Savings & loan bank	4.82	5.00	5	Keefe Bruyette
USWNA	**U.S. WEST NewVector Group**	Operates cellular-phone systs.	134.00	20.00	20½	Salomon Bros.
ZIF[a]	**Zenith Income Fund**	Closed-end fund	85.00	10.00	10	Shearson Lehman

[a] trading on NYSE; [b] trading on AMEX; [c] an additional 1 million shares were offered overseas; [d] units of 4 common + 1 warrant; [e] an additional 816,000 shares were offered overseas; [f] an additional 3.75 million shares were offered overseas; [g] units of 1 common + 1 warrant; [h] units of 3 common + 3 warrants. Offering data source: *GOING PUBLIC: THE IPO Reporter*, a publication of The Dealer's Digest Inc., 150 Broadway, New York, NY 10038.

CHARTS: IMAGEBUILDER DESIGN

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THE MAGAZINE FOR
GROWING COMPANIES

AUG. 1988
$3.00

The Anatomy of a Start-up:

THE HOTTEST BUSINESS GAME IN TOWN

Turning a Fad into a Growth Business

PAGE 50

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TIMOTHY A. DEMELLO,
FOUNDER OF WALL STREET GAMES INC.

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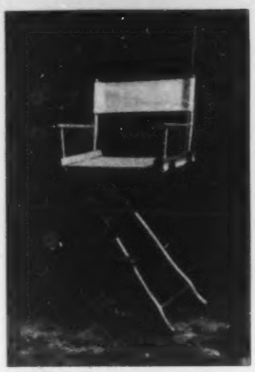

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by
John Goodman

LETTERS

WHERE'S THE HEART?

The relationship between business and personal values was also evoked in the responses to May's Anatomy of a Start-up, "Rooms with a View," about the Queen Anne Inn, a bed-and-breakfast in Denver.

Your article is destined to become a classic in the bed-and-breakfast world, where so many wonder if there is money to be made in such a highly personalized business. It brought to mind the successful B and B owner who—after listening to a bottom-line conference speaker—asked, "Where's the heart?" Lifestyle is the primary reason for going into the B and B business, and burnout the primary problem, even among hosts who have been forewarned. Hence we see owners moving next door, and turning their host duties over to a new kind of professional, the inn-sitter.

Bernice Chesler
Author
Bed & Breakfast in New England
Newton Highlands, Mass.

As a bed-and-breakfast owner, I found your article a real eye-opener, and about two years too late. Most B and B stories focus on the wallpaper and overlook the nickel and dime of it, which is really most important. At 48, I am probably earning about $2.35 an hour, but I have three beautiful acres of plants, lawns, and weeds, and a wonderful 1898 Victorian home. After 18 frantic years in New York City, I have no tremendous desire to collect possessions or to change my business and lifestyle. Nevertheless, your guest experts hit the mark in talking about the limited potential of a B and B as a real business.

Peter Goldfarb
Owner
The White Swan Guest House
Mount Vernon, Wash.

MINDING YOUR OWN BUSINESS

The issue of values is clearly on readers' minds these days, and it is one that seems to arise wherever you look in a business. It surfaced again in one reader's response to Paul B. Brown's marketing column, "The Ostrich Gambit" (May), about recreational-vehicle tour master Larry Olsen, who defies the conventional wisdom and ignores what his competition is doing.

I get the impression from Olsen's quotes that he doesn't really ignore his competitors but simply refuses to worry about them. Rather than trying to eighty-six somebody else's business, he invests his time in improving and promoting his own. This has two very important effects. First, it gives him more time to do his planning; second, it takes away a lot of stress.

I learned the value of this approach when competitors began attacking the quality of my service. I wanted revenge, but my wife convinced me not to respond at all. To respond, she argued, would suggest that I had some reason to defend myself against false claims. As it turned out, she was right. We never lost a customer, and my competitors succeeded in enhancing our image while tarnishing their own.

What really concerns and scares me are the views of the marketing consultants Brown quotes. If it were up to them, the Super Bowl would never be played: one team would just blow up the other team's bus on the way to the game and proclaim itself world champion. These experts think it's fine to attack competitors any way you can, above or below the belt. How long does it take before this attitude creeps into your relationships with customers, and then into your personal life?

Larry Olsen would probably say that it is better to stress quality and honesty in every situation. That way, you will always be consistent in your decisions. Employees and customers will be easier to deal with because they'll all know what to expect from you. That's really how Olsen deals with his competitors—not by ignoring them, but by minding his own business, and by having the confidence to know he'll always be a few steps ahead.

Robert Wellnitz
President
Trux
Modesto, Calif.

POSTSCRIPTS

We also heard from readers who wanted to add something to articles we had published. One letter, for example, praised Robert A. Mamis's piece, "Attack of the Bears" (May), concerning the stock performance of this year's INC. 100 companies, but suggested that Mamis had overlooked an important reason for the diminished luster of small-cap stocks.

Many small companies that go public are not prepared for the challenges they will face in the aftermarket. No one warns them about the investment of time and money it takes to maintain favorable relations and valuations from investment professionals. Without a plan to market their companies to analysts and fund managers, they end up with undervalued and underfollowed stocks. In the short term, shareholders pay the price in reduced value. Longer term, an important financing avenue is closed. Lots of well-financed companies have small stock-market valuations, and many would be well served by LBOs. For those that seek continued access to the public market, however, active marketing of the company story can generate much stronger and more consistent support than your article suggests.

Michael Rosenbaum
Partner
The Financial Relations Board Inc.
Chicago

For candor's sake, we should note that Mr. Rosenbaum earns his living by marketing company stories to the financial community. Nevertheless, his point is well taken.

Another reader elaborated on an issue raised by John Case in his June article, "ESOPs: Dead or Alive?" which introduced our Owner's Manual series. In the article, Case recounted the story of Henri Bertuch, who sold 30% of his stock in his company to an ESOP and then reinvested the proceeds in other U.S. corporate securities, thereby deferring the tax on his gains. Case noted that—if Bertuch dies before selling the new assets—his heirs can avoid income tax on the gains entirely. That's where our correspondent picks up.

Case omits an important point. Once you roll over your owner's stock into a qualified replacement stock, it can't be rolled over again without incurring a tax. It must stay in the same domestic corporate security you have chosen as your initial replacement stock. If, for instance, the replacement company were acquired and you had to sell the stock, you'd be forced to pay taxes on the entire gain, not just the gain in the value of the replacement stock. That's a very important consideration, seldom noted in the ESOP literature.

James H. Carrington
Chairman of the Board
Season Air Inc.
Rockville, Md.

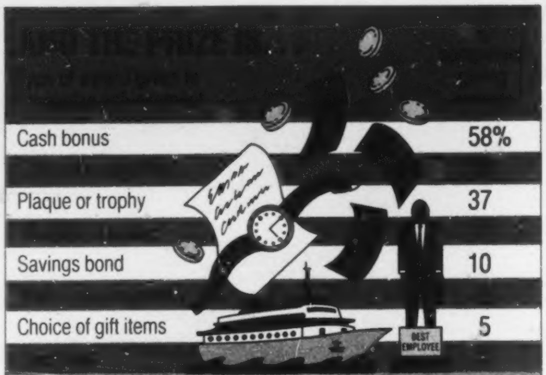
HOUSE OF CORRECTIONS

Finally, we'd like to apologize to the owners and employees of two companies that were mistakenly disqualified from the 1988 INC. 100. One is ISOETEC Communications Inc., of Darien, Conn., which manufactures and sells business communication systems. It had a five-year growth rate of 3,345%, which should have earned it the 39th spot on the list. We also failed to include Texcel International Inc., in Mineola, N.Y., a manufacturer of air pollution–control systems. With a five-year growth rate of 3,231%, it should have ranked #41.

INC. wants to know what you think. Please address all correspondence to INC. Letters Editor, 38 Commercial Wharf, Boston, MA 02110, or call our editorial commentary line toll free at (800) 444-1756. (Messages will be recorded.) Please include name, address, and telephone number for verification. Letters must be signed, and all correspondence may be edited for space and style.

HANDS ON

A Manager's Notebook



Nearly all companies responding to a Bureau of National Affairs Inc. survey use prizes to reward performance or achievements ranging from service milestones to productivity. Among the companies that have an award program, here is the breakdown.

Source: The Bureau of National Affairs Inc., Personnel Policies Forum survey, 1987

RESOURCES

PERSONALIZED WISDOM

The problem with new books is that they keep you from rereading the old ones, retailer Stew Leonard says. "You're so busy trying to keep up with what is coming out that you can forget what you've already read. And it's hard to convince yourself to go back and reread a 300-page book."

The owner of Stew Leonard's, in Norwalk, Conn.—an enterprise *Ripley's Believe it or Not!* calls the world's largest dairy store—has come up with a solution.

As he reads useful texts, Leonard underlines passages he likes and scribbles notes in the margins. When he's done, his secretary types up everything he's marked, and he has a 20- to 30-page summary—which, Leonard says, is better than anything he could buy, because he has personalized it to his business. Periodically, he goes back and rereads his summaries.

"You can also give your outlines to employees," Leonard adds. "If you give them a 300-page business book, they'll never read it, because it's too long. But they'll read 30 pages." ☐

MARKET RESEARCH

SECONDHAND KNOWLEDGE

The market-research budget is often among the first to get trimmed when growing companies suffer a cash crunch. Now, there's a way to fill at least some of the gap—and cheaply.

A service called Marketsearch lists more than 18,000 research studies on U.S. and foreign markets by business and industry professionals, consultants, and entrepreneurs. Some of the surveys, which were released within the past five years and cover everything from ammunition to zippers, sell for less than $100.

Subscribers to Marketsearch pay $195 a year and receive the annual directory, a midyear supplement listing new studies, and access to a hot line providing up-to-the-minute data on recently released surveys. Look for it at a business library or write to: Marketsearch, P.O. Box 5228, Evanston IL 60204. ☐

MANAGING PEOPLE

HERE COME THE JUDGES

At most companies, it's an annual rite for employees to sit down with their bosses and review their strengths and weaknesses. After all, who can better judge employees' performance than their immediate superiors?

Warren Rodgers can think of some. Why not let employees rate themselves? says the president of Computer Specialists Inc., in Monroeville, Pa. And if you're in a service business, you may be overlooking an obvious critic: your clients. They may see your employees more often—and in a greater variety of circumstances—than you do.

Twice a year, Rodgers asks his clients and each of his 150 employees to fill out evaluation forms. Then, he and the employee compare the two evaluations. "If people feel the quality of their work is an 8 out of 10, and the client feels it's a 4, there's trouble," says Rodgers. ☐

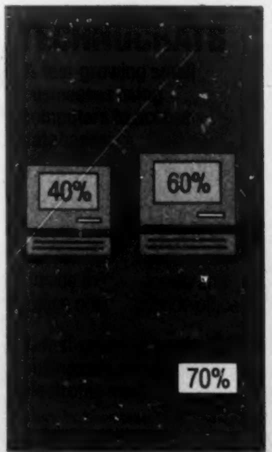
STRATEGY

IS THERE A LAWYER IN THE HOUSE?

You may want to reconsider inviting your lawyer to be on your company's board of directors. The trouble, says Dennis O'Connor, an attorney with a Waltham, Mass., firm specializing in corporate law, is that things can get confusing when a lawyer is asked to wear two hats—those of business adviser and legal counselor. "There's a gray area in between, and it can be hard for a CEO who acts counter to a lawyer's recommendation to know whether he is risking an illegality or simply disagreeing on business strategy," O'Connor says.

An experienced board member himself, O'Connor says it's standard policy at many law firms to sit on the boards of companies they advise, making it difficult for clients to sever the relationships. His own firm has taken a different—and he thinks healthier—approach. O'Connor attends as many as eight board meetings a month, but only as a nonvoting legal and business adviser. Under these well-defined circumstances, in which the voteless attorney wears only a legal hat, having a lawyer attend meetings is a must, O'Connor says.

"Many companies try to save money by not having a lawyer present at all, but that can hold up a decision when a director wheels around and says, 'Let's see what the lawyer has to say about this,' and there's no lawyer there." ☐



CHARTS: CYNTHIA DAVIS

HANDS ON

LAW

SPELL IT OUT

If you don't have a written description of the medical and insurance benefits your company provides, get out a typewriter. Under Section 89k of the tax code, which should take effect on January 1, 1989, such policies must be in writing to remain tax exempt. In addition, workers must receive reasonable notification of their benefits and have legally enforceable rights—so that they could sue if benefits were arbitrarily denied.

The new provisions are easy to comply with, says John Egner, senior legal counsel for The Johnson Cos., an employee benefits and compensation consulting firm. The key: a summary plan description distributed to all employees—something many smaller companies have done without. Employers must also provide descriptions of such perks as company-subsidized cafeterias and employee discounts, notes John Eggertsen, a Detroit attorney specializing in benefits law. "I'd be surprised if one out of 10 small employers gives adequate descriptions to its employees," he says. ☐

QUOTE OF THE MONTH

'We don't want to ruin a business relationship by having a haphazard, obnoxious bill collector. Keeping up on late payers is like shaving—if you don't do it every day you look like a bum.'

—William Donohoo of The Gibson Group Inc., in Cincinnati, a paperboard broker whose thin margins make low receivables a requirement, not an option

COST CONTROL

A PRESCRIPTION FOR SAVING MONEY

You're not the only one who's eager to battle the rising cost of medical insurance. After watching his company's premiums increase by more than $500,000 over five years, Jack Stack of Springfield Remanufacturing Center Corp. (SRC) gambled on a way to slow the tide: SRC now self-insures the prescription-drug portion of its insurance plan.

Under the previous program, employees filled prescriptions without ever seeing a bill. Since there was no incentive to limit costs, price was never an object—and the big spending resulted in premiums that were about to run SRC $70,000 a year. Well, Stack decided, why don't we pay for the prescriptions ourselves, arrange for volume discounts, and give employees a reason to think twice about costs?

It worked. SRC canceled its prescription-drug insurance, struck off-price deals with area pharmacies in grocery chains, and offered a special bargain-rate deductible on purchases of generic drugs. Encouraging the use of generics—something insurance companies don't do—can reduce the prescription-drug outlay of the company's 425 employees and their families by more than 40%.

How has the change affected the program as a whole? What would have been a $5,000-per-month insurance bill is now a $1,800-per-month pharmacy bill. That will add up to almost $40,000 in savings for SRC this year. ☐

BUSINESS TRAVEL

THE FRIENDLIEST SKIES

OK, admit it. There's something about saying, "Oh, I flew in on the company jet. . . ." That's besides all the productivity and morale benefits some say a corporate craft provides. But how much does actually *buying* a business plane cost?

According to Sabreliner Corp., the average new business jet will set you back $5 million to $6 million, and the average used jet goes for $500,000 to $3 million. If you go low end, and use your plane four hours a week, annual operating costs are likely to average $300,000.

It's an attractive travel alternative if you can afford it. According to the National Business Aircraft Association, more than 800 used business planes and 220 new ones were sold in 1987.

Still interested? Sabreliner has a free workbook to analyze the costs and benefits of ownership. Write to: Sabreliner, 6161 Aviation Dr., St. Louis MO 63134. ☐

KEEPING COUNSEL

Type of counseling	% companies offering such counseling under an employee assistance program
Alchohol/drug abuse	40%
Emotional/stress	37
Preretirement	30
Marital	26
Termination	24
Career	22
Financial	22
Legal	16

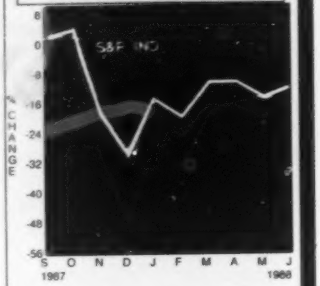
Formalized employee assistance programs, some or all of which are paid for by the company, exist in 45% of surveyed companies.

[illegible]

Reported by Leslie Brokaw, Paul B. Brown, Joshua Hyatt, Teri Lammers, Martha E. Mangelsdorf, and Amy Schulman

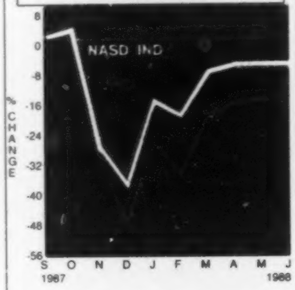
INVESTING IN GROWTH COMPANIES

INC. vs. CONSERVATIVE AVERAGES



All averages start at 0 in October 1987.

INC. vs. SPECULATIVE AVERAGES



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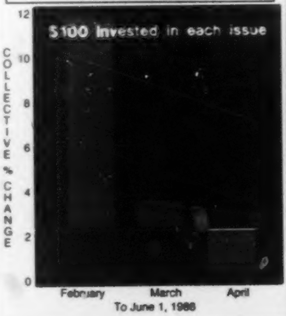
IPOs IN THE AFTERMARKET



INITIAL PUBLIC OFFERINGS: MAY 1988

O-T-C sym.	Company	Business/product	Offering Size ($mil.)	Offering Price	First aftermarket bid	Underwriter
SI[a]	**ACM Government Spectrum**	Closed-end fund	270.00	10.00	11⅜	Paine Webber
BFSI	**BFS Bankorp**	S&L	2.32	7.00	7	Merrill Lynch
BMRG	**BMR Financial Group**	Bank holding co.	8.55	9.50	9½	Alex. Brown
LTG[b]	**Catalina Lighting**	Mfrs. light fixtures	3.22	3.50	3⅞	Werbel-Roth
CBOG	**Community Bancshares**	Bank holding co.	7.25	7.25	7¼	Robinson-Humphrey
CMAT	**Compumat**	Mkts. computers & software	3.80	4.75	4⅞	Oberweis
CPF[a]	**Comstock Partners Strategy**	Closed-end fund	1,100.00	10.00	10	Merrill Lynch
CYTBU	**Cytrx Biopool Ltd.**	R&D of vascular-syst. prods.	6.00	6.00[c]	6¼	D. H. Blair
FRMG	**Firstmiss Gold**	Dvlps. gold mine	13.00	8.00	7¾	Shearson Lehman
FCX[a]	**Freeport McMoRan**	Holding co.	65.63	17.50	17¾	Kidder, Peabody
HBUF	**Homestyle Buffet**	Restaurant chain	3.80	6.50	7	Oberweis
ICAR	**Intercargo**	Ships cargo	4.64	6.25	6½	Blunt Ellis
MYOTU	**Myo-Tech**	Mfr. & mkts. medical testing device	3.75	5.00[c]	5½	D. H. Blair
PIF[a]	**Pru Intermed Income**	Closed-end fund	470.00	10.00	10	Prudential-Bache
RELY	**Relational Technology**	Mkts. software	28.00	14.00	14⅝	Goldman, Sachs
RESP	**Resperonics**	Designs & mfrs. respirator prods.	6.00	12.00	12	Parker/Hunter
RCHFA	**Richfood Holding**	Food distr.	19.38	7.75	8	Paine Webber
SGHI	**Silk Greenhouse**	Operates synthetic-flower stores	12.08	11.00	13½	Robertson Coleman
BID[b]	**Sotheby's Holdings**	Auctions art	52.26	18.00	18	Salomon Bros.
TSO[b]	**T2 Medical**	Operates home-care infusion therapy units	12.00	8.00	8	Drexel Burnham
TNN[a]	**Teleconnect Co.**	Diversified telephone syst.	57.60	18.00	18	Merrill Lynch
TJCK	**Timberjack**	Mfrs. logging equipment	13.80	12.00	12	Kidder, Peabody
USM[b]	**United States Cellular**	Owns & operates cellular phone service	42.00	15.00	15	Salomon Bros.

Initial public offerings sold at $1 or less not included; issues without underwriters not included. First aftermarket bid is approximate. [a] trading on NYSE; [b] trading on AMEX; [c] units of 3 common + 3 warrants. Offering data source: *GOING PUBLIC: THE IPO Reporter*, a publication of The Dealer's Digest Inc., 150 Broadway, New York, NY 10038.

STREET TALK Among the most convincing proofs of the theory of contrary opinion—which holds that the market never does what the majority expects it to do—has to be the 75-point rally of the DJI on May 31. At that time, stocks had been meandering down from their mid-April post-crash high, and to many, it looked as if they were taking aim at 1,800 again. Technicians who measure bullish versus bearish sentiment reported that the bull/bear imbalance was at its most severe since the 1981–'82 period—when the DJI was at 800. Last May the ratio among market-letter writers was about 30% bullish to 55% bearish. The DJI then leapt from under 2,000 to over 2,100 in less than two weeks. That surge not only lent credence to contrarians' beliefs, but supports the view that at critical junctures, professionals know little more than the rest of us.

—Robert A. Mamis

CHARTS: IMAGEBUILDER DESIGN

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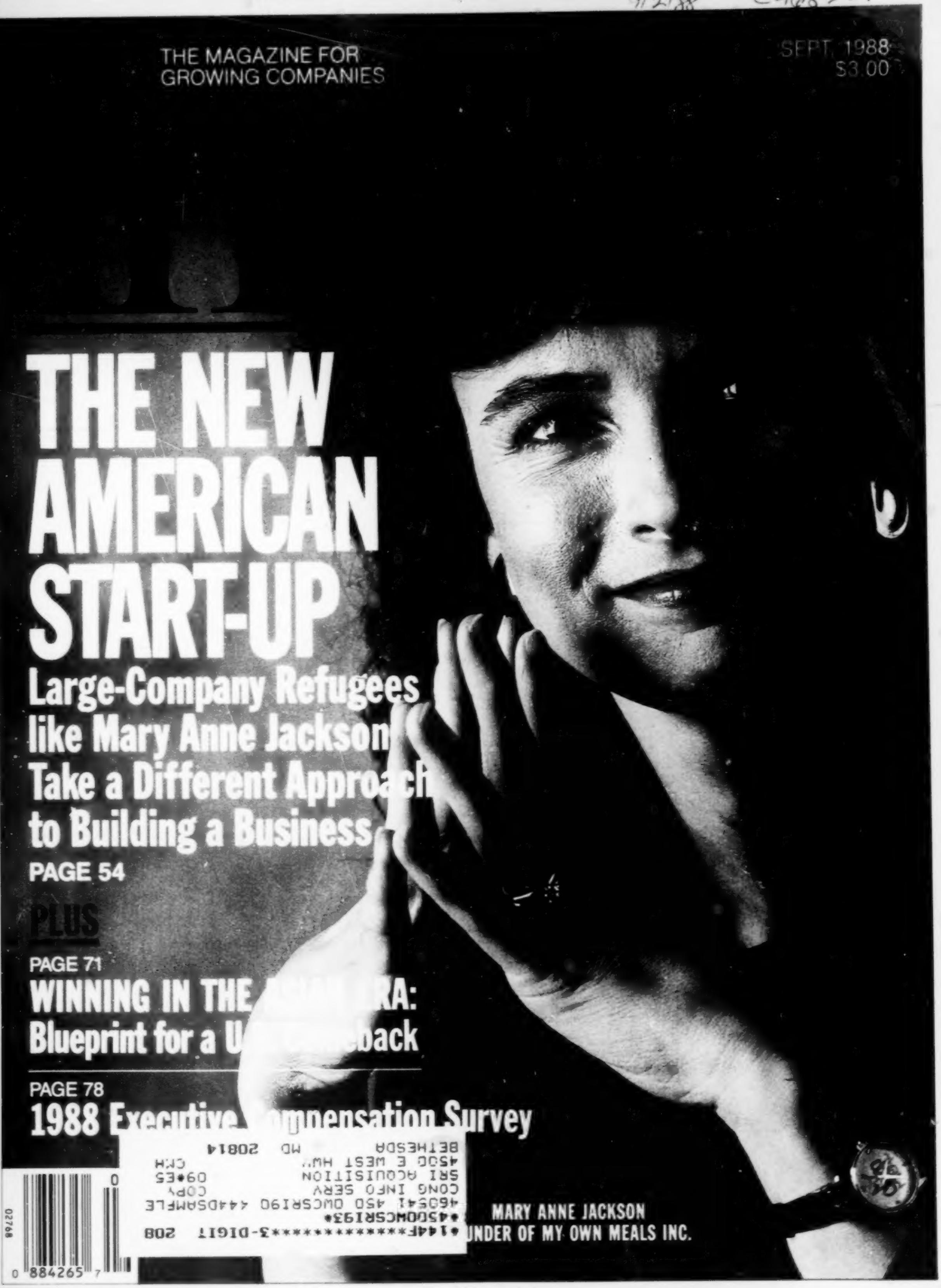

THE NEW AMERICAN START-UP

Large-Company Refugees like Mary Anne Jackson Take a Different Approach to Building a Business

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1988 Executive [illegible]ompensation Survey

MARY ANNE JACKSON
[illegible]UNDER OF MY OWN MEALS INC.

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LATE BLOOMERS

Among companies, as among people, it's the young from whom we expect the serious growing. We're wrong

BY DAVID L. BIRCH

Most people think companies are like cows—growing a lot when young and then very little thereafter. It's part of a natural tendency to ascribe a biological model to practically everything. And when we think of fast-growing companies, the tendency is compounded. We already know that rapid growers are likely to be small—and we are quick to equate small with young.

It turns out that we're mistaken.

Companies, unlike cows, are regularly "born again." They take on new management, stumble onto a new technique, or benefit from a change in the marketplace. Whatever the cause, statistics show that older companies are *more likely* to grow rapidly than even the youngest ones.

Look at company growth by age group (figure 1). The very youngest group of businesses has a relatively high concentration of rapid growers (as determined by an index combining percentage and absolute growth), but not the highest concentration. The rates fall off until the ripe old age of 40 or so, after which they begin to accelerate. The group with the largest concentration of rapid growers consists of companies 75 years old and older.

Well, you might argue, if older companies can, in fact, continue to grow, maybe it's because they get bigger over time and acquire the resources to grow by leaps again.

There's some truth to that—but not much. More than two-thirds of all rapidly growing companies 10 years old and older are small (fewer than 100 employees) when they begin their growth. It appears that a smaller business can come alive at almost any time in its existence, and that a lot of them do.

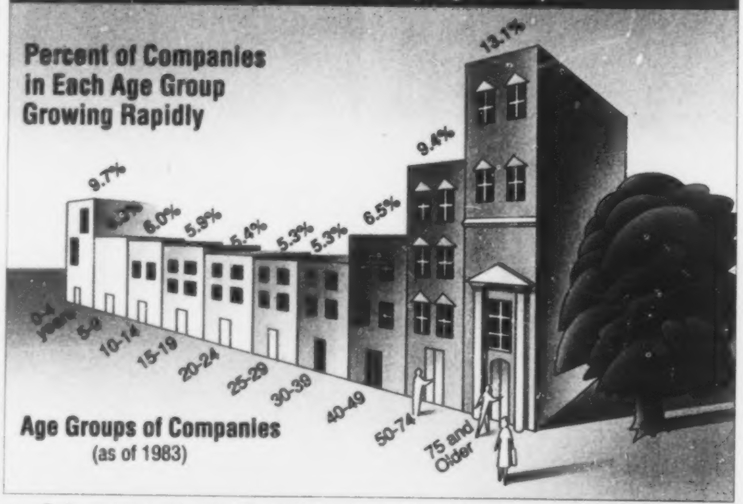
We discussed in last month's column the fact that entrepreneurship is a hard grind. Maybe now we know why: it's a grind that's endless. There is potential for explosive growth throughout a company's life: it's a planted seed, waiting for the right combination of water and light to bring it alive. Older companies, it stands to reason, may provide the most fertile soil—having accumulated the cash flow, wisdom, and experience to recognize and take advantage of opportunity when it presents itself.

If your company needs to identify the rapid growers (to sell to, work with, or invest in), there's a simple message. You can't assume that the growth-company clichés—young high-tech hot shots—describe your only, or even your best, target. With more growth concentrated above 10 years of age than below it, it pays to look carefully at the older generation.

And what will you find when you do? A pattern not at all in accord with most stereotypes (figure 2). High tech is the

Figure 1

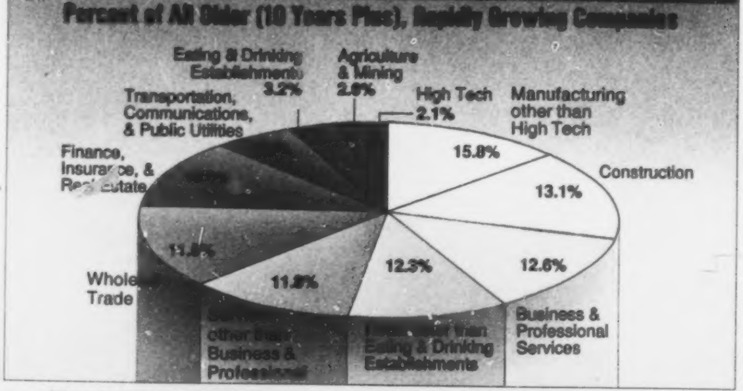
Company Growth by Age Group



Only among companies 75 or older are more than 1 in 10 likely to be fast growers.
Not even start-up companies have as good a chance for growth as old ones.

Figure 2

What the Older, Fast-Growing Companies Do



More than 1 in 7 rapidly growing, older firms is a non–high tech manufacturer.
High tech is the smallest source of fast-growing companies at least 10 years old.

CHARTS: SAM WARD

smallest source of growing, older companies. (Apparently, high-tech companies *are* like cows—rarely growing except when young.) Too often, and with encouragement from the business press, people assume that most high-tech companies are growing—and worse, that most growing companies are high tech. Perhaps it's understandable that the cowlike tendencies of high-tech businesses get projected onto all companies. The reality, however, is that the growth patterns of high-tech companies are the exception, not the rule.

Older companies are not only more likely to be rapid growers, they're attractive in other ways, too. They're less likely to fail, less volatile, and more experienced.

Second only to the high-tech stereotype is the myth that most other growing, small companies sling hamburgers and peddle beer. In fact, among older growers, eating and drinking establishments are only a tad above high tech at the bottom of the list.

What's at the top of the list may be equally surprising to those who haven't been regular readers of this column. The greatest source of growing, older companies is general-purpose, low-tech manufacturing. So it isn't just start-ups that have rekindled the manufacturing sector. The obituaries for old-line manufacturing companies appear to have been premature. No other sector during the past four years has produced more growing businesses.

In general, the recent fortunes of older companies make it clear that innovation and creativity are not one-shot affairs. Companies can and do grow rapidly at almost any time in their histories.

Older companies are not only more likely than young ones to be rapid growers; they are in many ways more attractive. They are less likely to fail or be volatile, are more experienced, and have managed to satisfy investors and meet payrolls for a long, long time.

Forget the cow. Perhaps we'd do better to think of companies as wine. ☐

David L. Birch is president of Cognetics Inc., in Cambridge, Mass., and director of MIT's Program on Neighborhood and Regional Change.

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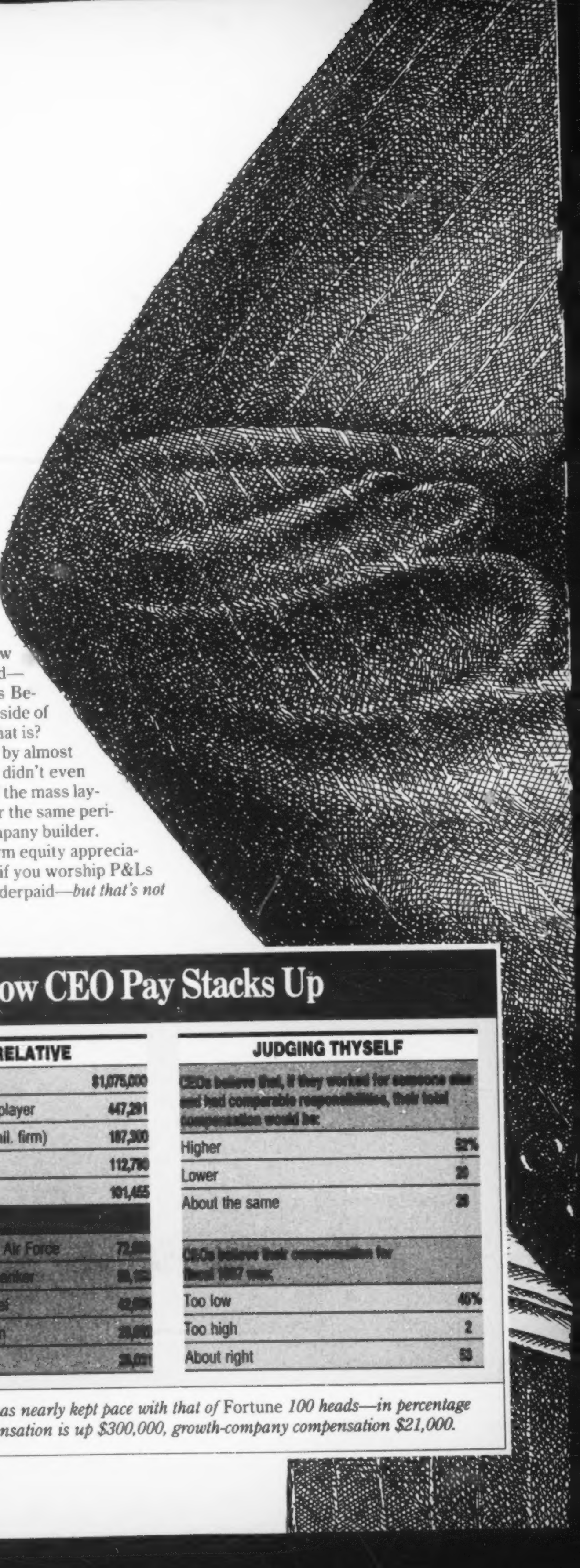
THE TAKE AT THE TOP

Are growth-company CEOs the most underpaid businesspeople in America?



Love or money? INC.'s 1988 executive compensation survey presents us with a riddle of motivation.

Sure, the pay of the average growth-company CEO is now $97,000, up some 27% over five years ago. Which is not bad—enough, certainly, to keep our hero in Chevies (see "CEOs Behind the Wheel," page 86). Still, salaries *do* look greener on the other side of the entrepreneurial fence. And if lucre isn't what we do it for, well, what is?

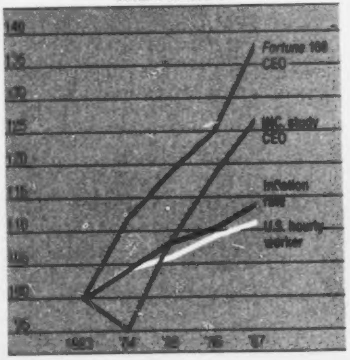
INC.'s surveyed CEOs have outstripped the five-year inflation rate by almost two to one—and this at a time when the average U.S. hourly worker didn't even keep up with the cost of living. *Fortune* 100 CEOs, however—they of the mass layoff and burgeoning trade gap—have hiked their take almost 40% over the same period. Today they make *nearly a million dollars more* than the typical company builder.

We could muddy the issue, of course. We could talk about long-term equity appreciation, lifestyle payoffs, or psychic reward—all the stuff you don't get if you worship P&Ls for GM. But why? Just look at the stats and say it: these folks are underpaid—*but that's not what it's about.* It's about passion, creativity, the grand crusade.

Money be damned. Love wins.

Competitive Analysis: How CEO Pay Stacks Up

THE TRENDS



IT'S ALL RELATIVE

Fortune 100 CEO	$1,075,000
Major-league baseball player	447,291
Japanese CEO ($100-mil. firm)	187,300
Doctor	112,790
Lawyer	101,455
INC.-surveyed CEO	
Four-star general, U.S. Air Force	72,[illegible]
First-year investment banker	[illegible]
Magazine editor-in-chief	42,[illegible]
Plumbing crew foreman	28,[illegible]
Public schoolteacher	26,031

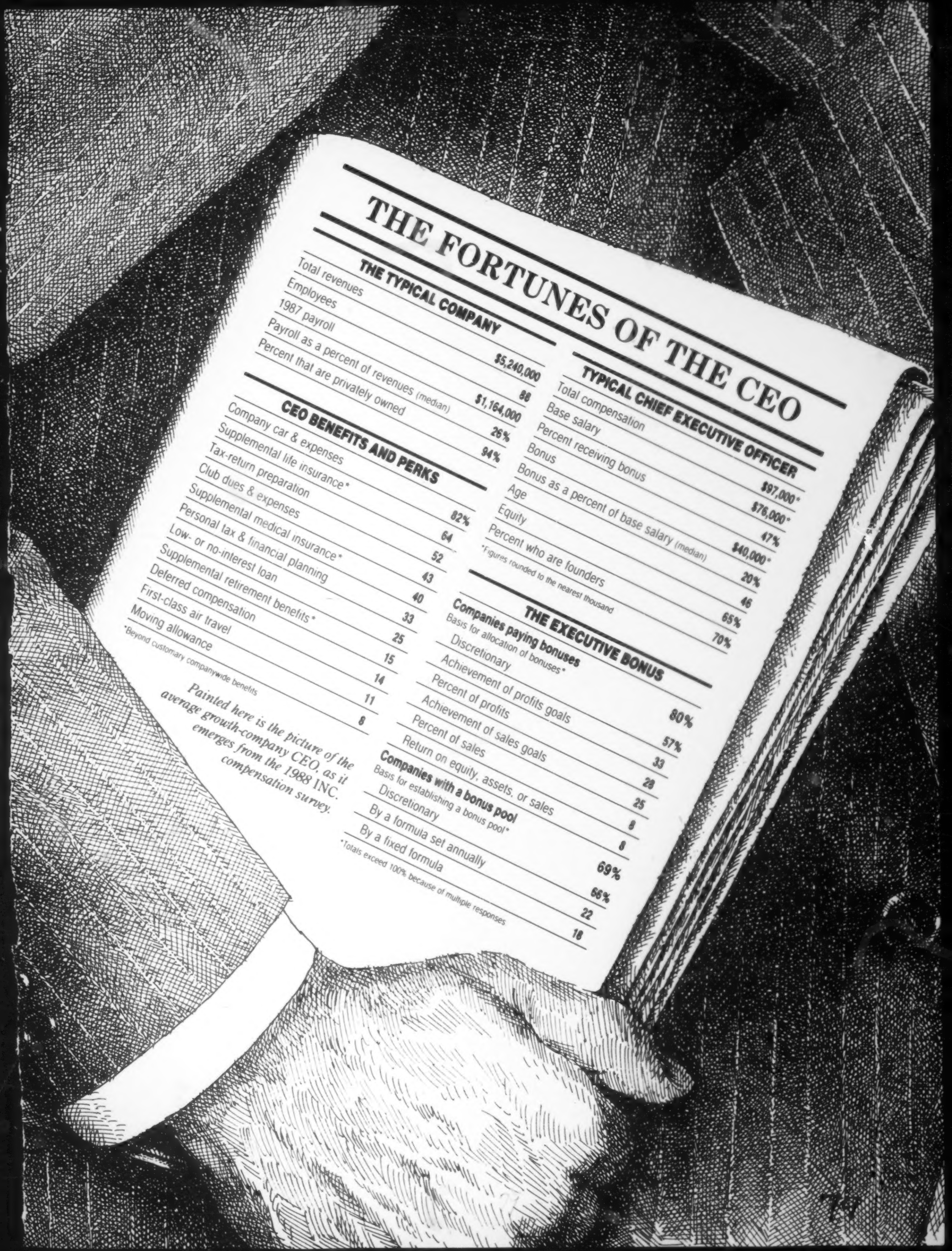
JUDGING THYSELF

CEOs believe that, if they worked for someone else and had comparable responsibilities, their total compensation would be:	
Higher	52%
Lower	20
About the same	28

CEOs believe their compensation for fiscal 1987 was:	
Too low	40%
Too high	2
About right	58

Excepting the downtick in 1985, the pay of INC.-surveyed CEOs has nearly kept pace with that of Fortune *100 heads—in percentage terms. In gross terms, things look different. Big-company compensation is up $300,000, growth-company compensation $21,000.*

ILLUSTRATIONS: ANATOLY



THE FORTUNES OF THE CEO

THE TYPICAL COMPANY

Total revenues	$5,240,000
Employees	88
1987 payroll	$1,164,000
Payroll as a percent of revenues (median)	26%
Percent that are privately owned	94%

TYPICAL CHIEF EXECUTIVE OFFICER

Total compensation	$97,000*
Base salary	$76,000*
Percent receiving bonus	47%
Bonus	$40,000*
Bonus as a percent of base salary (median)	20%
Age	46
Equity	65%
Percent who are founders	70%

*Figures rounded to the nearest thousand

CEO BENEFITS AND PERKS

Company car & expenses	82%
Supplemental life insurance*	64
Tax-return preparation	52
Club dues & expenses	43
Supplemental medical insurance*	40
Personal tax & financial planning	33
Low- or no-interest loan	25
Supplemental retirement benefits*	15
Deferred compensation	14
First-class air travel	11
Moving allowance	8

*Beyond customary companywide benefits

THE EXECUTIVE BONUS

Companies paying bonuses	80%
Basis for allocation of bonuses*	
Discretionary	57%
Achievement of profits goals	33
Percent of profits	28
Achievement of sales goals	25
Percent of sales	8
Return on equity, assets, or sales	8
Companies with a bonus pool	69%
Basis for establishing a bonus pool*	
Discretionary	66%
By a formula set annually	22
By a fixed formula	18

*Totals exceed 100% because of multiple responses

Painted here is the picture of the average growth-company CEO, as it emerges from the 1988 INC. compensation survey.

INC.'S GUIDE TO WRITING YOUR OWN TICKET

How to take down the big bucks—while keeping investors, bankers, and the taxman smiling

BY PAUL B. BROWN

CHARLES LAZARUS OF TOYS 'R' US MADE $60 million last year. Jim P. Manzi of Lotus raked in $26.3 million, and wine maker and author Lee Iacocca found a total of $17.9 million coming his way.

You work just as hard running your company as they do running theirs. So you should make that kind of money, too—right?

Well . . .

OK, you decide you can live with just a fraction of what these guys find in their pay envelope each week. But exactly how large should that fraction be?

That's the question facing people who run their own companies, and unfortunately there is no terrific answer.

Surely, if you pay yourself $4 million a year and your company grosses only $3 million, you're going to raise some eyebrows—your banker's, your stockholders', your venture financier's.

You'll also probably discover that the IRS wants to chat.

The government's position on paying yourself too much is simple. If you got $500,000 last year for a job that was only worth $125,000, the Internal Revenue Service is going to treat the "extra" $375,000 as a dividend. This, for the feds, is better than discovering that Christmas comes twice a year. You—as an employee—are going to pay personal income tax on that $375,000. Plus, your company won't be allowed to deduct the $375,000 as a business expense. Salaries are deductible. Dividends ain't. If ever you wanted to make a case for eliminating the corporate income tax, this would be it. As the example shows, the same income is being taxed twice, once when the corporation makes a profit and again when that profit is received as salary.

But the friendly folks at the IRS aren't overly concerned about tax theory. They're worried about you living too high off the hog. Their official position is this: you can pay yourself a nice salary, as long as it is "reasonable compensation" for the work done.

The problem with that is obvious, says Ronald Neill, a partner at Calfee, Halter & Griswold, a Cleveland law firm. "Reasonableness, like beauty, is in the eye of the beholder."

Swell. But all is not lost. Compensation experts say the following approach to writing your own ticket will keep the IRS at bay.

Step 1: Look around. The most important thing, they say, is to determine what your peers are getting. If you're running a $5-million toy company, find out what people who are running similar-size toy companies—not Toys 'R' Us—are getting. Then try to stay in the ballpark. While your competitors are not likely to turn over their W-2s, trade publications and associations probably do surveys that will let you know what they make.

Step 2: Leave a paper trail. Having set your salary, be sure to spell out in writing how that decision was made—and have somebody at arm's length approve it.

"The IRS doesn't want to take on a company's board of directors," says Arthur F. Farwell III, vice-president at The Johnson Cos., a management-compensation and benefits firm in Langhorne, Pa. "If the board has reviewed the plan, then the company has a stronger case" when the IRS comes to call.

Step 3: Plan ahead. Set your compensation plan early in the year. If you wait until December to come up with a way to dispose of that extra $375,000 the company finds ~~on~~ hand, the IRS is likely to say it isn't a bonus, but a dividend.

"It isn't so much the semantics as having a reasonable program," says Farwell. "If the track record has been to pay out 20% of profits each year, and you suddenly find yourself with a hot product that makes that 20% a huge number, you are probably OK. But if you normally pay out 5% and this year it's 63%, that's trouble. There's no consistency."

The bonus as a percentage of sales or earnings, by the way, is one way the big-company boys pull down the serious bread. Charles Lazarus's base salary is "just" $315,000. But his contract provides an incentive bonus of 1% of corporate pretax profits over $18 million. That came to $3.2 million last year. (Stock options made up the rest of the $60 million.)

If you follow our three-step approach, your salary is likely to pass IRS muster, even if it suddenly jumps from $60,000 to $200,000. In such a case, says attorney Neill, you could argue that compared with other executives in your field, you were underpaid at $60,000. You could also say that a good hunk of that compensation came in the form of incentive compensation, which was set in advance and agreed to by your independent board of directors.

SETTING COMPENSATION:
*The factors that matter most**

Company profitability	77%
[illegible]	[illegible]
Company's capital needs	30
[illegible]	[illegible]
Partners or board of directors	22
[illegible]	[illegible]
Taxes	17
[illegible]	[illegible]
Effect on top management	8
[illegible]	7

*Totals exceed 100% because of multiple responses.

A company's profitability, far more than any other factor, determines how CEOs pay themselves.

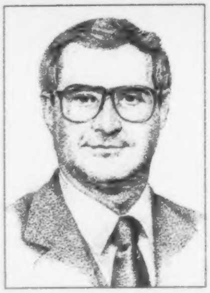
Still baffled about how much you should be paid? Ask your banker. If you're running a $5-million company that's making 10% pretax, the subject of your salary may not even come up when your company applies for a loan, says Jack Leahy, a vice-president at Chase Manhattan Bank, in New York City. "But say that company is only making $40,000. Then one of the things we're going to look at is what the entrepreneur is paying himself," he says. "If the chairman is taking out $400,000, then obviously the company has some flexibility on the number it brings to the bottom line. In this case, we may set a limit on what the salary should be." That limit won't be expressed in terms such as reasonable compensation. The bank will talk numbers—stipulating that pay is "not to exceed $100,000," for instance. If you pay yourself more, they'll call the loan.

And if you are thinking about getting around either your banker or the IRS by taking less salary but making it up in fringes, think again. While you may have gotten away with it in the past, you no longer will. Now, there's a whole series of tests used by the IRS that prevents you from favoring yourself in fringe-benefit plans. What you give yourself, you have to give to all your employees.

The issue of executive compensation is of particular importance to heads of companies in the throes of growth. While we don't know many CEOs at billion-dollar companies who complain about their compensation, many growth-company heads—indeed, 45% of the people responding to our survey—thought they were underpaid. There's a good reason, of course. If your company is growing

INSIDE THE MIND OF THE IRS

Confessions of an inquisitor



Be forewarned: if Jim Brennan shows up at your door, you're in trouble. His visit is a message, a signal that the Internal Revenue Service is ready to take you to court.

Shoveling greenbacks out of the business? Splitting your company into three different corporations, then taking a full-time chief executive's salary from each? Or are you the frugal type, saving a few bucks by paying out profits through tax-deductible salary and bonus rather than through dividends taken from aftertax income? If the IRS thinks so and decides your offense is so flagrant it has no choice but to prosecute, it'll send in Brennan—CEO of Brennan, Thomsen Associates Inc. and a professional compensation expert—to show you the error of your ways, be it envy, avarice, or pride.

By law you're allowed "reasonable" compensation, "the amount that would ordinarily be paid for like services by like enterprises under like circumstances." Brennan will set a dollar figure, rationally, based on an extensive survey of like companies in like situations, and then, if necessary, he'll testify as the IRS's expert witness in court.

It is rarely necessary. Of the 60-some cases Brennan has seen in the past eight years, only 6 actually went to trial. Forty percent were settled as soon as the IRS announced it was bringing him in.

It takes a foolish taxpayer to battle the IRS much further, of course. Unlike your garden-variety felon, who is presumed innocent unless proven guilty, a CEO in tax litigation stands guilty before the first gavel falls, forced to disprove the agency's charges while facing the prospect of whopping legal fees along with the penalties and interest on the tax bill. But the IRS doesn't want to go to court any more than the taxpayer, Brennan insists. "The IRS is reasonable. They aren't given to quibbling. Usually they're more generous with the taxpayer than I could support as an expert."

The challenge is getting the taxpayer to be reasonable, too. "People let their egos get involved, and that's a trap. They feel they're being judged as deficient. They say, 'This is *mine*,' and feel their personal validation is threatened."

At that point reason usually flies out the window. How else to explain the taxpayers who spent thousands producing a movie showing just how vital they were to their companies, even though the judge was blind? Or how about the former fast-food fry chef who took over an adult-film company when the founder was forced to divest or face criminal prosecution, then claimed $269,000 a year (hazard pay for a job that could lead to the slammer)?

Outside the courtroom Brennan looks too good-natured to be an inquisitor. A smiling, round-faced 42-year-old with prematurely gray hair and thick glasses, he works out of a cluttered second-floor walk-up just down the mall from the Fantastic Sams haircutting franchise in suburban St. Louis. But taxpayers underestimate his reputation only at their peril. His custom-designed pay programs have been singled out for praise by Congress, the General Accounting Office, and a roster of private clients.

Brennan can predict in advance what he'll hear when the IRS calls. The company will be small, always less than $50 million in sales, usually in the $20- to $30-million range. It will be run by stockholder officers who set their own pay, in many cases meaning well, but ultimately deceiving themselves. They may believe they are "the best in the field," as one CEO pleaded, but that doesn't mean they deserve twice as much as anyone else in their industry, particularly if their company is only one-fifth the size of its competitors.

Some fall victim to "the proprietary trap," Brennan says. "They see their friends with sole proprietorships or partnerships that have drawing accounts and vacation houses, and want the same things. They think, 'By golly, this is *my* company. I made the money and I can do what I want with it. This is America.'

"But that's a fundamental misunderstanding of the discipline of corporations. A corporation ain't the same creature as a sole proprietorship."

Others are too generous to their children. It's unreasonable, Brennan says, for a parent in a $20-million company to pay his general counsel/son $500,000 a year while the boy is still in law school, or for another to decide his daughter is "vital and essential to the company's management" and worth $200,000 a year for flying the company plane on family vacation trips.

Equally unreasonable, and more common still, are children who are too generous to themselves—like the cosmetology student who took a $15,600 job as secretary in her father's business, then boosted her salary to $297,500 the year after the old man retired. Brennan doesn't expect children in a family business to sacrifice like their parents did, working out of a garage, pouring body, soul, and every available nickel into the company. "But the kids want to live high right away"—another lapse of discipline.

Brennan works blind, creating a competitive analysis of compensation in similar companies without knowing the actual salary of the taxpayer in question. Starting with sales revenue, structure, number of employees, number and title of subordinates, stock history, dividend record, profit, assets, capital, and debt, he'll turn to publicly available survey information from the Executive Compensation Service, the Conference Board, or INC.'s Executive Compensation study, looking for the closest match he can find. "I start by presuming I represent the other side—and give them the most generous assumptions," he says. The IRS is more generous still. "They aren't interested in what's the average compensation, they want to know what's the *highest* anybody is paid." If you're not above that figure, you're probably safe from the court. *—Curtis Hartman* quickly, you tend to use what little money there is for new copiers, not to give yourself a raise.

But ironically, paying yourself too *little* can worry the outside world, too.

"Most people starting a company know nothing about a lot of things, including what they should pay themselves," says Dallas venture capitalist L. J. Sevin. "It's not a huge issue" if you should set your compensation low, "but it does show a lack of judgment."

Sevin won't mind if you pay yourself, and your staff, a fair wage. But he—like the IRS—doesn't want to see overpayments, either. "We want to see companies that can attract good people without paying them a premium. That tells us the folks who sign on are committed to the idea and are motivated."

But at some point, you'll want to be paid what you're worth. A little planning now will make that possible.

And for those who dream about the compensation of Reebok's Paul Fireman ($15.4 million), Waste Management's Phillip B. Rooney ($14.3 million), or GE's John F. Welch ($12.6 million), that planning will help you prepare your defense, in case the IRS arrives. ☐

CEOs BEHIND THE WHEEL:
The cars of choice

Cadillac	10%
Chevrolet	10
Mercedes-Benz	9
Ford	8
Oldsmobile	8
Buick	7
Lincoln	7

Among the CEOs surveyed, only Mercedes interrupts the preference for a 'made-in-the-U.S.A.' company car.

COMPENSATION FOR TOP OFFICERS BY COMPANY SIZE*

SERVICE

Annual revenues	CEO	COO	CFO	CMO
$10 mil. or more	$174,000	$105,000	$80,000	$71,000
$5 mil.–$9.99 mil.	145,000	71,000	51,000	75,000
$1 mil.–$4.99 mil.	105,000	69,000	45,000	67,000
Less than $1 mil.	59,000	55,000	30,000	46,000

MANUFACTURING

Annual revenues	CEO	COO	CFO	CMO
$10 mil. or more	$206,000	$114,000	$112,000	$95,000
$5 mil.–$9.99 mil.	126,000	72,000	73,000	67,000
$1 mil.–$4.99 mil.	100,000	60,000	41,000	56,000
Less than $1 mil.	62,000	60,000	42,000	66,000

WHOLESALE/DISTRIBUTION

Annual revenues	CEO	COO	CFO	CMO
$10 mil. or more	$150,000	$101,000	$59,000	$87,000
$5 mil.–$9.99 mil.	142,000	**	**	80,000
$1 mil.–$4.99 mil.	75,000	51,000	14,000	48,000
Less than $1 mil.	48,000	**	**	**

RETAIL

Annual revenues	CEO	COO	CFO	CMO
$10 mil. or more	**	**	**	**
$5 mil.–$9.99 mil.	$85,000	**	**	**
$1 mil.–$4.99 mil.	60,000	$35,000	**	$38,000
Less than $1 mil.	36,000	32,000	$13,000	28,000

OVERALL

Annual revenues	CEO	COO	CFO	CMO
$10 mil. or more	$181,000	$109,000	$91,000	$88,000
$5 mil.–$9.99 mil.	125,000	75,000	61,000	69,000
$1 mil.–$4.99 mil.	93,000	63,000	37,000	58,000
Less than $1 mil.	58,000	52,000	26,000	45,000

EXECUTIVE BENEFITS AND PERKS:

The benefits and perks that companies provided to their top officers

	CEO	COO	CFO	CMO
Company car & expenses	82%	65%	55%	70%
Supplemental life insurance*	64	63	60	57
Tax-return preparation	52	31	32	27
Club dues & expenses	43	27	27	27
Supplemental medical insurance*	40	40	39	38
Personal tax & financial planning	33	20	19	18
Low- or no-interest loan	25	18	19	18
Supplemental retirement benefits*	15	14	14	14
Deferred compensation	14	14	13	13
First-class air travel	11	6	6	6
Moving allowance	8	11	13	12

Among companies with at least $10 million in sales, manufacturers pay the most. But among businesses between $1 million and $10 million, it's the service sector that averages the highest in compensation for top officers. In companies under $1 million, manufacturing is again the leader.

*Figures rounded to the nearest thousand; ** Insufficient response for purpose of comparison

THE FACTS BEHIND THE FIGURES

This is the 10th consecutive year that INC. has conducted an executive compensation study. In early April, we mailed a four-page questionnaire covering salaries, benefits, bonuses, and policies to a random sample of 20,000 subscribers. Data Tabulation Services, Inc., of Boston and Stoneham, Mass., compiled the 1,700 usable returns.

A special report containing the complete results of the survey is available. The report—while preserving the confidentiality of the survey responses—provides detailed information not included in the magazine. To obtain a copy, please fill out the postpaid card bound in this issue, or send a written request and a check for $78 ($75, plus $3 shipping and handling) to INC. Executive Compensation Study, Attn: Mary Ellen Mullaney, 38 Commercial Wharf, Boston MA 02110, or call (800) 372-0018. In Massachusetts, call (617) 227-4700.

The survey was conducted under the direction of special projects editor Sara Baer-Sinnott. Research assistance was provided by Leslie Brokaw.

YOU GET WHAT YOU PAY FOR

If you want money to talk, you'd better be clear about what it's supposed to say

BY BRUCE G. POSNER

FIVE YEARS AGO—A COUPLE YEARS SOONER THAN most people—Jim Bernstein found Truth.

By then his young business had survived its infancy and, as a provider of health-risk information to insurance and industrial companies, had become steadily if unspectacularly profitable. Now, Bernstein wanted more. He wanted General Health Inc. to grow. But how to make that happen? he wondered. Then it came to him, the managerial magic wand that could transform stasis into growth: *incentive compensation.*

It made such simple sense. You want your company to get from *A* to *B*. More important, you want your employees to want your company to get from *A* to *B*. So you put a price, a reward, on *B*'s head—a bounty no respectably materialistic worker could ignore. Then you watch your people gun for it.

What Bernstein wanted, specifically, was for General Health's revenues to grow from $1.8 million to $2.7 million in a year. The company's margins were firm, so it stood to reason that the sales growth would convert into profit growth. Perfect. The company would blossom. Life would be sweet.

With this happy sequence in mind, Bernstein promised all 30-some employees that, if the company hit the sales target, each would get an extra month's pay.

It worked. In fact, it worked *too well.* The incentive plan had immediate impact. "It was incredibly motivating," Bernstein recalls. Instantly, General Health began booking business faster than ever before. Unfortunately, it was soon evident that the increased volume was creating problems. As sales shot up, the expense of generating and servicing the new accounts—the product literature, computers, support staff, and so on—also went crashing through the roof. The company's bottom line, which had habitually shown 10% pretax profits, turned dangerously red. "We thought there were enough mechanisms in place to control our costs," explains Edwin Russell, a director who headed General Health's compensation committee. "But the volume of orders was creating amazing pressures to spend money."

Luckily, the company addressed the problem before it was too late. Bernstein installed a new incentive program—one that balanced the desire for growth with the need to control costs and maintain adequate cash flow. Salespeople were still encouraged to bang down doors, but other employees were rewarded both on the basis of company profits and on their ability to meet specific goals. The manager in charge of computers, for instance, was measured by his ability to meet his budgeted cost structure. "The thing about incentive plans," says Bernstein, shell-shocked but wiser, "is that people take notice. You can meet your goal—and run yourself right out of business."

▶ STORY ◀
PROPOSAL

Just a few years back, incentives were hot. Pay-for-performance plans were the cutting edge of compensation strategy. The press hyped them. Managers tried them. Consultants got rich off of them.

What's happened since? Were incentives, as advertised, the panacea for work-force ills? How did they operate when companies actually used them? In other words, has practice lived up to theory?

Let's find out. —B.G.P.

Bernstein is not the only CEO who has found this out. All across America, managers just like him have been flocking to incentive systems—often called pay-for-performance plans—in a spirited attempt to simultaneously fire up and control the businesses they're trying to build. The idea isn't new. It's been around ever since managers began fretting about the consequences of boosting pay without bettering results. But only in the past few years has the notion of putting significant dollars at risk become the norm. Nowadays, says Lester B. Jackson, president of Compensation Consultants Inc., in Scottsdale, Ariz., "entitlements are out. Companies want improved results before they hand out pay increases, and there's more willingness to experiment."

What once was an avant-garde idea has quickly become conventional wisdom. The genie is out of the bottle, and it's almost inconceivable that it will go back in. Companies such as General Health have lived with incentives for a while, and we're beginning to see how they work. Incentive compensation, *in practice*, has a history. And history has its lessons.

As the General Health episode suggests, getting incentive plans in proper alignment can be difficult. Not that the principles themselves are flawed. If anything, experience shows they're more persuasive than imagined. "People are going to try to take you where the money is, whether you like it or not," says Jim Mullis, a principal and compensation consultant with Ernst & Whinney, in Atlanta. So you'd better be comfortable with where you want to go.

At many businesses, the problems begin right away, with the definition of company goals. Most CEOs have an intuitive sense of the direction they want to move—be it increasing sales or profits, or improving quality. If you've never experienced the power of incentives, picking a goal might seem tame. The risk, however, as General Health found, is that setting up one objective against all others can unleash forces beyond your control. When General Health began pushing sales, the feeling was that profits would take care of themselves. After all, Bernstein understood the cost structure of the business—or so he thought.

In retrospect, notes director Russell, one might have anticipated that the drive for sales would throw things out of whack. After all, the name of the game was booking orders, not saving paper clips. "Ask people to focus on *X* and they go hell-bent for leather on it," Russell says. "They forget about *Y*."

So there's a lesson here: before picking a goal, prepare yourself for what will no doubt happen when people begin shooting for it. Depending on the circumstances, you may want to rethink your objective or at least figure out how to monitor what happens. "Unless you watch it," says Mullis, "incentives can take on a life of their own."

It would be nice if having the right goals was all you needed to make incentive plans work. Unfortunately, successful goal selection is just the beginning. Companies get equally snarled up in figuring out the best ways to measure progress toward those goals. For better or worse, the technique you use for keeping score—both for the company as a whole and for individuals—is critical. It sets the course. And the wrong yardstick can be just as dangerous as the wrong goal.

Consider, for example, what happened at Lillard Co., a $30-million heating and air-conditioning distributor based in Concord, Calif. Lillard's was a case of the right goal but the wrong way to measure it. For many years, Lillard rewarded its six branch managers on the basis of gross profits they generated in their own territories—the profit on products sold, before deducting operating expenses, which were paid by headquarters. The problem was that what triggered the bonus wasn't the gross profit *dollars*, it was the percentage *margin*.

CHANGING STRATEGIES:

Looking to compensation for an edge

Companies with a performance appraisal system that made changes in it	16%
Companies with an annual incentive program that made changes in it	12
Companies without a performance appraisal system that are planning to develop one	11
Companies without an annual incentive program that are planning to develop one	12

A lot of managers are reconsidering how they pay their employees.

During the 1970s and early 1980s, when the company was growing, it didn't seem to matter that bonuses were calculated in this manner. "High volume led to high profit," notes Bob Callegari, vice-president for operations, so the company was covered. Headquarters was getting enough cash from the branches to easily handle branch expenses, pay out incentive awards, and have something left over. But in 1983, the market softened in some parts of California; paying bonuses that were indexed according to gross margins became suicidal. The percentage margins were still there, but low volume meant that the dollars weren't. "We had managers who were getting bonuses even though their branches were *losing* money after expenses," says Callegari. "In a bad market, it was like writing checks on a zero balance."

Given the circumstances, then-owner Emery Lillard decided to make fundamental changes. The first thing he did was scrap the margin system and begin basing the branch managers' bonuses on gross profit dollars. Then, in an attempt to upgrade their management skills, Lillard went a few steps further. He also tied their pay to return on assets, and to inventory and receivables management—things they had never had to worry about under the previous compensation system.

Clearly, says Callegari, the new measurement system was more demanding of managers, and some of them were apprehensive about the change. Every month, for instance, they saw their own P&Ls. The higher their return on assets, the bigger the slice of gross profits they got to keep—up to 35%. "But after a year or so," he says, "everyone was doing as well or better than before. And the company became a lot more profitable."

Once you get it right—suitable goals, good ways to keep score—you can hope that the most difficult part is over. But don't count on it. The track record shows that the most difficult part may be when performance prevents the rewards from kicking in.

Some compensation specialists say the decision should be easy. "If a guy falls flat on his face, you have to be willing to say, 'Tough luck,' " argues Eugene Nawrocki, a consultant at The Wyatt Co., in Wellesley, Mass. Sounds reasonable, but what about morale? How do you balance commitment to the plan with fear of mutiny?

Very gingerly, says Mike Guthman, partner at Hewitt Associates, in Rowayton, Conn., especially when you're dealing with people you don't want to lose. "If a plan isn't paying out and people think it should be, then you've got to deal with that," he says. It doesn't matter if the problem is the result of an act of God or an unfortunate decision. "Letting the chips fall" isn't always possible.

The truth is that there's no easy way to make incentive plans work—not if you want to stay in control of the business. But just being aware of that should give you a head start. "Once you're out where the rubber meets the road," says Donald T. Sagolla, principal in charge of management consulting at Peat Marwick Main & Co., "you can't just hold people to three or four objectives and stand back. There's a lot of managing to do, and as we know, managing takes two things: time and courage." ☐

POSNER'S LAWS

Creating incentives for your company? Here's what to think about

Now that we've lived with them a while, two things about incentive compensation plans are certain:

1) They work.

2) Because they work, you'd better be careful about exactly how you set yours up.

So here's help. The troubles companies have had with *their* incentive programs suggest keys to keep in mind as you devise a system of your own.

Don't copy. Every company is different, which means every plan probably ought to be, too. What's more, most plans have problems, so if you mimic one, you'll run the risk of magnifying its mistakes. This doesn't mean you can't get *ideas* from competitors—just be skeptical about using them.

Make the goals different for everybody. Wonderful as it sounds to have everyone shooting at the same target, it's important to go the next step and define objectives for individuals, too. In the company's revised plan, for instance, General Health Inc. tied the product development manager's bonus to meeting tight schedules.

Poke holes in your system. If you devote some time to thinking about the weaknesses of your completed plan, you'll end up with a better one. Had General Health done this, for example, the company might have installed better cost controls before forging ahead.

Don't walk away. Incentive plans send strong messages to people, so make sure they're hearing them right. Keep in especially close touch with employees *as* the plan is being implemented. Listen to their reactions. Remember that it takes time to communicate both the spirit of the system and how it works, so be sure you're prepared to give it.

Follow the money. When the plan starts paying out, see who's getting the bonuses. If the rewards aren't going to the people you expected, you may be rewarding the wrong kind of behavior. Even before you get to this point, give some thought to what you'll do if it appears your plan is having unintended effects.

HANDS ON

A Manager's Notebook

MANAGING PEOPLE

A BUSINESS CARD IN EVERY POCKET

It's an old but true bromide: employees who are proud of what they do make better workers. Here's another easy way managers can help instill that feeling: make sure everyone has personalized business cards.

"A batch of cards costs us only $20," says Nancy Vetrone, president of Cleveland-based Original Copy Centers Inc., "and it's a hell of a simple way to recognize each person as important." Vetrone hand-delivers the cards to new employees within a week of their joining the company—a gesture that welcomes them to the permanent team.

The cards are also a cheap method of marketing, she says. "We've put 94 times more cards out in the world through our 94 employees. You never know who your people know." ☐

WHAT WAGES ARE WORTH

Work time needed to pay for:
(in minutes unless otherwise specified)

	WASHINGTON	MOSCOW	MUNICH	LONDON
Sirloin steak, 1 kilogram	83	195	93	123
Tuna, 1 kilogram	36	183	40	[illegible]
Potatoes, 1 kilogram	9	11	5	3
Fresh milk, 1 quart	4	20	6	6
Car, midsize (months)	9	84	12	15
Man's two-piece suit (hours)	18	118	33	16
Color television set (hours)	30	669	54	75
Movie in a suburban theater	40	28	42	52

Source: National Federation of Independent Business Foundation, 1987

OPERATIONS

BIGGER CARROT, BETTER RESULTS

Have you ever wondered whether the awards you use to motivate employees just won't do the job? Walter Riley, president and CEO of Guaranteed Overnight Delivery Inc. (G.O.D.), in Kearny, N.J., looked at the less than stellar safety records of his company's drivers and began thinking.

G.O.D.'s delivery trucks were averaging six accidents a month. The pin, patch, plaque, and $50 driving-record rewards, typical for the industry, were fetching typical accident records. "I didn't want to be *typical*," says Riley. "I wanted to get rid of the fender benders that added up to a lot of grief."

And a lot of money. Riley estimates that in 1987 he spent $130,000 on repairs. "But it's the intangibles that were even more costly—meetings with lawyers and insurance people, filling out forms, and lost driving time for starters." All that brought the cost of the accidents to perhaps $400,000, Riley says. When he realized he was spending only $350 on his safe-driving program, he figured his cheapness might be the problem.

So he bought a 35-foot-long motor coach for vacation use by drivers who worked a year without an accident. After Riley unveiled this new carrot, the accident rate plummeted 89%. Because the plan is so new, total savings can't be calculated, but Riley is confident that they'll cover the monthly payments on the $90,000 fully loaded vacation on wheels. ☐

PERSONNEL

KEEPING THE INJURED INVOLVED

Do you write off injured workers—approve the workers' compensation claims, shuffle in replacements, and forget the wounded until their months on the dole are over? If so, you may be missing an opportunity.

Employees who are injured on the job don't necessarily have to be lost to workers' comp, says Thomas Lynch, of Lynch, Ryan & Associates Inc., a benefits consulting firm in Westboro, Mass. Companies can bring many of the injured back to do light tasks around the factory or office, thereby raising productivity, lowering insurance costs, and boosting morale at the same time.

"Think about tasks you've always wanted done but never had people around to do," Lynch says. "Weed through them: some can be done seated, others with one hand."

Then, says Lynch, negotiate a temporary job description together with the injured employee and his or her doctor. In cases in which light or restricted work is possible, Lynch claims that many employees will accept the offer. "People *want* to work, they want to feel useful," he says.

And the business's benefit? In addition to getting worthwhile tasks accomplished, companies that routinely pursue this policy—and have at least 80 to 100 employees insured under what is known as a loss-sensitive plan—can receive refunds of 40% or more on their annual workers' compensation premiums, according to Lynch. Smaller companies usually don't qualify for refunds, but they may eventually get lower premiums. ☐

HIRING

SCOUT'S HONOR

Looking for clues in a job applicant's past that might predict his or her future performance? Here's an unusual one.

After hiring many of the more than 70 employees for Super Wash Inc., her car-wash chain in Morrison, Ill., Mary Black has found 4-H and Scouting experience to be two of the more reliable tip-offs to likely roll-up-the-sleeves workers—and ones with leadership abilities to boot.

"Scouts know how to work with a team and be independent at the same time," she says. "And 4-H members are used to keeping detailed records of their projects. My head accountant is a 4-Her, and she's incredible." Recently, Black hired an Eagle Scout to be quality-control inspector. And she herself was a Senior Girl Scout.

When it dawned on Black that many of her best workers had the Scouting/4-H experience in common, she began looking for it. And though she's quick to point out that hiring decisions aren't based on that résumé item alone, she claims it has yet to steer her wrong. ☐

CHARTS: CYNTHIA DAVIS

HANDS ON

LAW

POLYGRAPH TESTS BANNED

If you use polygraph tests to recruit or manage your employees, start thinking of alternatives. On December 27, 1988, a new federal law takes effect that virtually bans private-sector use of the tests.

Lie detectors will no longer be permitted as a means to prescreen job applicants. The only exceptions: applicants for security and pharmaceutical jobs. Companies will have to rely on such screens as background checks and written tests to gauge honesty.

Use of polygraph tests to investigate stealing and other infractions *is* permitted, but the employee must first receive a written notice stating that he or she is "reasonably" suspected of committing the infraction. The employee can refuse the test or terminate it at any time. Since the law does not define reasonable suspicion, experts advise using lie detectors sparingly to avoid lawsuits. ☐

FINANCE

GETTING BILLS PAID EARLY

Having trouble with customers who take their early-payment discount even when they don't pay early? Carl Hansen, president and CEO of Viking Engineering Inc., a Tarpon Springs, Fla., manufacturer, has a solution.

Instead of detailing the discount on an invoice, making it tempting to take the discount regardless of when paid, Hansen prints his early-payment price offer only on an eye-catching green coupon included with each bill. The separate coupon prevents payables clerks from honestly confusing the discounted price with the regular, net-30 billing. It also, says Hansen, "psychologically grabs the customer and bumps us up on the list of people to be paid."

Apparently, it works: Viking's average bill is paid in a respectable 35 days—down from 55. ☐

WHAT IT REALLY COSTS EMPLOYERS

COMPENSATION COMPONENT	ALL PRIVATE INDUSTRY	GOODS INDUSTRIES	SERVICE INDUSTRIES
Legally required*	$1.13	$1.43	$1.01
Paid vacation and leave	.93	1.09	.87
Insurance	.72	1.02	.60
Pension and savings	.48	.64	.41
Other benefits	.02	.04	.01
Total benefits	3.28	4.22	2.90
Wages, salaries and bonuses	10.15	11.65	9.52
Total compensation	$13.43	$15.87	$12.42

*Social Security, workers' comp, unemployment insurance, disability, and Medicare

Above are the average hourly employer costs for employee compensation, by major industry groups, according to a 1987 survey by the U.S. Bureau of Labor Statistics.

QUOTE OF THE MONTH

> *'The biggest enemy is doubt. If you don't believe in what you are doing, you aren't going to make it.'*
>
> *—Philippe Kahn, president and CEO of Borland International Inc., a Scotts Valley, Calif., software-industry pioneer whose sales grew from $38 million in fiscal 1987 to more than $81 million in 1988*

MARKETING

WHEN LESS IS MORE

Test-selling a product for possible addition to your line can be dangerous. If you add the item, you'll buy big quantities to get the best price. But if it doesn't move during your test, you can be stuck with an unsalable inventory. Which is why, says Stew Leonard, paying more is sometimes a better deal.

Before Leonard places a big order for a new item, he'll order a smaller lot and sell the item for less than he paid. "Sure I lose a little money, but I find out if it really is a good deal," says the Norwalk, Conn., retailer. "If I sell out, I'll buy the truckload. If I don't, I'm not stuck with something I can't sell."

It's a lesson he learned the hard way. "We were offered a truckload of shaving cream at 99¢ a can, or 10 cases at $1.39. I took the truckload because I was sure we'd sell out. We didn't. I initially priced it at $1.19. I finally sold it at 69¢, buy two get a third one free." ☐

BANKING

OPEN COMMUNICATIONS

If you're like many CEOs, you'd like to make communications between you and your lending institution a two-way street. Terry MacRae, cofounder and principal of Hornblower Yachts Inc., in San Francisco, has found a way: meet regularly with everyone from your loan officer to the bank president. Once a quarter the bankers get to see just what their loans are buying, and MacRae gets to check out how *their* portfolio's doing, what management changes are underfoot, and how their short- and long-term plans are coming along.

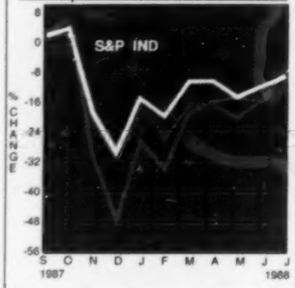
"When you ask what's new," says MacRae, "it's surprising what they'll tell you." He learned during one meeting that his bank would soon acquire another bank—and he was able to plan an extra cushion of time to process his next loan application.

Don't be afraid to turn the tables and make requests of your bank. "They're selling a service, and you're paying for it," admonishes MacRae. "You have the right to ask for certain things without being bashful." ☐

Reported by Leslie Brokaw, Paul B. Brown, Teri Lammers, and Stephen D. Solomon

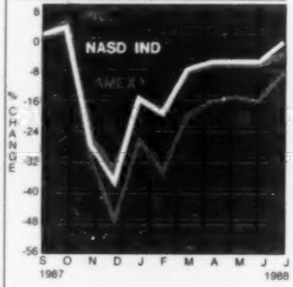
INVESTING IN GROWTH COMPANIES

INC. vs. CONSERVATIVE AVERAGES



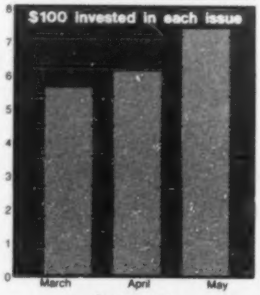
All averages start at 0 in October 1987.

INC. vs. SPECULATIVE AVERAGES



All averages start at 0 in October 1987.

IPOs IN THE AFTERMARKET



To July 1, 1988

INITIAL PUBLIC OFFERINGS: JUNE 1988

O-T-C sym.	Company	Business/product	Offering Size ($mil.)	Offering Price	First aftermarket bid	Underwriter
AZL[a]	**Arizona Land Income**	Real-estate investment trust	24.00	10.00	10	Young Smith Peacock
ATCEU	**ATC Environmental**	Provides environ. svcs.	3.60	9.00[b]	21	Graystone Nash
DELL	**Dell Computer**	Designs & mfrs. IBM-compat. PCs	36.13	8.50	9⅝	Goldman, Sachs
DSI[c]	**Dreyfus Strategic Govt. Income**	Closed-end fund	156.00	12.00	12	Paine Webber
DEMP	**Drug Emporium**	Operates discount drugstores	21.75	14.50	15½	Furman Selz
EGGS	**Egghead**	Retails PC software	61.20	17.00	19¼	Donaldson Lufkin
ELE[c]	**Empresa Nacional**	Produces electricity	172.06	12.29	13⅛	Goldman, Sachs
EWSCA	**E. W. Scripps**	Diversified media co.	108.00	16.00	16⅛	First Boston
LFSA[c]	**First Federal S&L of Lenawee**	S&L	4.28	8.00	8⅛	McDonald & Co.
GCR[a]	**Gaylord Container**	Mfrs. corrugated paper prods.	77.90	20.50	20½	Salomon Bros.
GMIC	**General Microelectronics**	Mfrs. & mkts. supercomputers	5.00	4.00	4⅛	Keane Securities
HVDK	**Harvard Knitwear**	Mfrs. women's & children's clothing	4.73	5.25	5⅛	L. C. Wegard
HUHOU	**Hughes Homes**	Retails mfr. houses	3.60	9.00[d]	8¾	Paulson Investment
INDX	**Index Technology**	Designs, develops, & mkts. software	19.20	12.00	13¾	Hambrecht & Quist
KNCI	**Kinetic Concepts**	Mfrs., & rents specialty beds	44.63	10.50	10⅞	Morgan Stanley
MAROU	**Marrow-Tech**	Develops tech. for replication of bone marrow	6.00	5.00[e]	5	D. H. Blair
MSHK	**Medstone Int'l**	Produces & mkts. medical equip.	13.00	13.00	16	Weedon & Co.
MIND	**Mindscape**	Publ. software prods.	9.90	9.00	9⅛	William Blair
ODEP	**Office Depot**	Operates office supply stores	21.00	10.00	12⅝	Merrill Lynch
PNF[a]	**Penn Traffic**	Operates supermarkets	25.33	14.00	14	Salomon Bros.
PTEC	**Phoenix Technologies LTD**	Designs, develops, & mkts. software	49.50	15.00	15½	Montgomery Securities
PGT[c]	**Putnam Intermediate Government Trust**	Closed-end fund	600.00	10.00	10	Shearson Lehman
RRR[a]	**Residential Resources Mortgage Investment**	Real-estate investment trust	65.00	10.00	10⅛	Donaldson Lufkin
SNF[c]	**Spain Fund**	Closed-end fund	39.00	12.00	12⅛	First Boston
STLT	**Stolt Tankers & Terminals**	Commercial shipping	49.20	10.25	10⅛	Shearson Lehman
USAS	**USA Waste Services**	Solid waste mgmt. co.	5.25	4.63	5⅛	R. B. Marich

Initial public offerings sold at $1 or less not included; issues without underwriters not included. First aftermarket bid is approximate. [a] trading on AMEX; [b] units of 3 common + 1 warrant; [c] trading on NYSE; [d] units of 2 common + 1 warrant; [e] units of 3 common + 3 warrant. Offering data source: *GOING PUBLIC: THE IPO Reporter*, a publication of The Dealer's Digest Inc., 150 Broadway, New York, NY 10038

CHARTS: IMAGEBUILDER DESIGN

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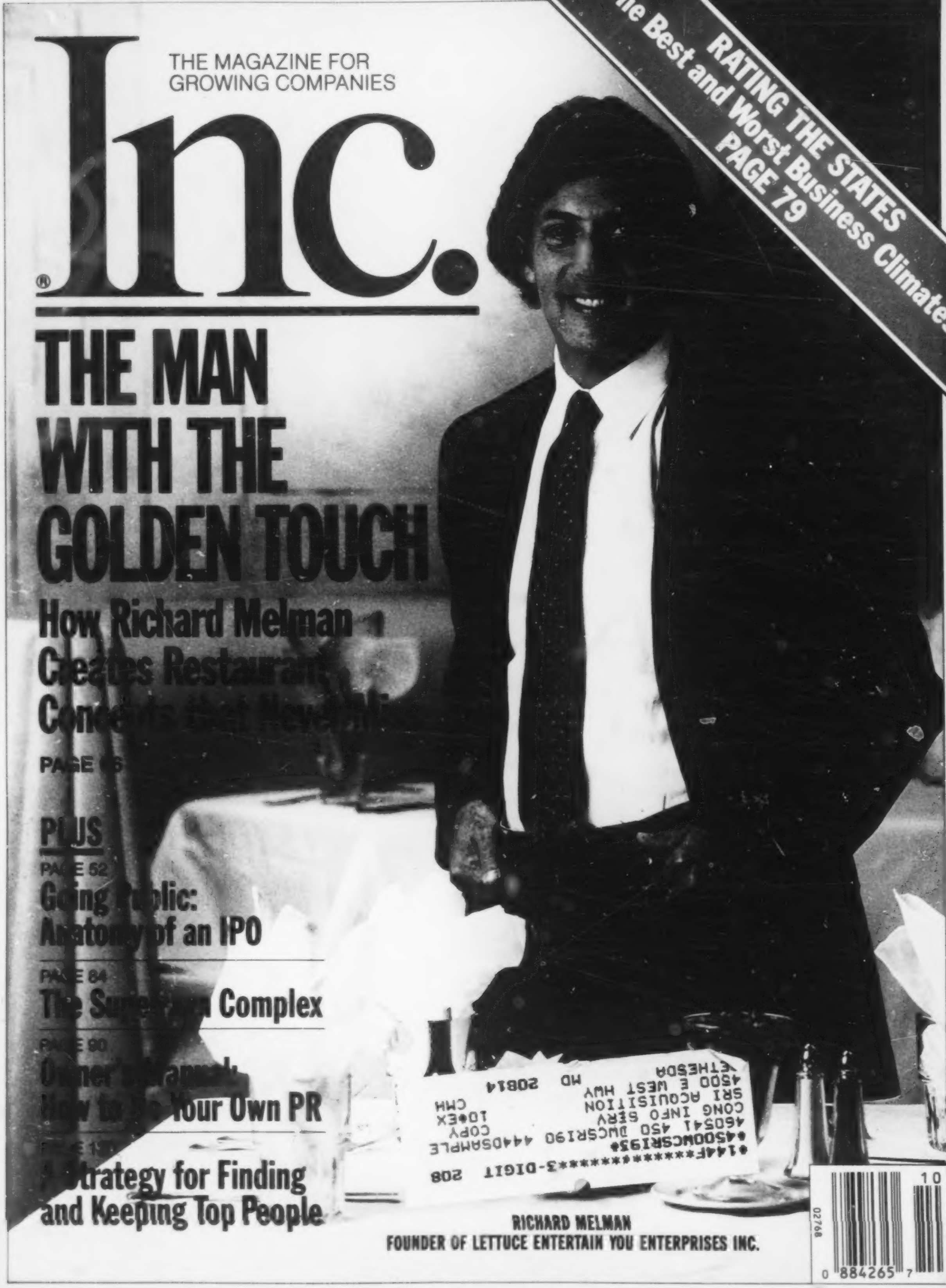
THE MAGAZINE FOR
GROWING COMPANIES

RATING THE STATES
The Best and Worst Business Climates
PAGE 79



THE MAN WITH THE GOLDEN TOUCH

How Richard Melman
Creates Restaurant
Concepts that Never [illegible]

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PLUS

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Going Public:
Anatomy of an IPO

PAGE 84
The Superman Complex

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How to Be Your Own PR

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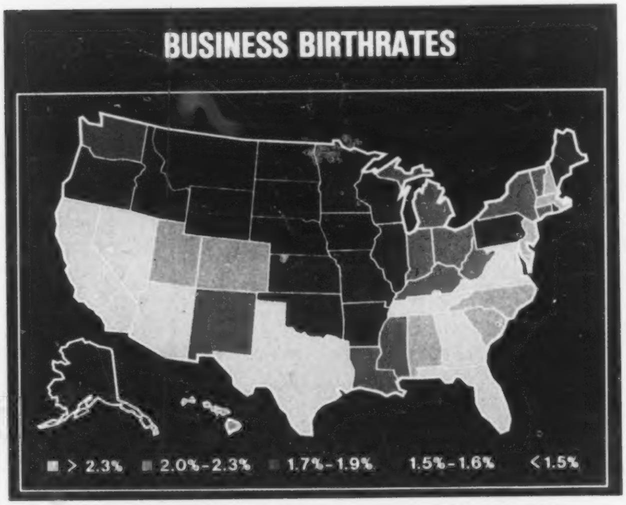
COVER PHOTOGRAPH
by
A. J. Bernstein

1988 REPORT ON THE STATES

The nation's governors have had to innovate to keep their states from economic turmoil. Now, some of their ideas may be headed for Washington



Most of the states doing well in business creation are below the Mason-Dixon line. States in the north-central United States lag behind.

Even if you're not from the state of Massachusetts, your governor is probably running for President this year.

At least that's how it may sound. Each time the candidates talk about investing in education or transferring technology, they are borrowing language heard first from governors. Call it trickle-up economics; this year, both candidates are adopting concepts that have been tested on the state level. "The governors have been on the firing line," says Douglas Henton, program manager at the Center for Economic Competitiveness at SRI International. "They've had to innovate."

This isn't the first time economic policy has been tried on a regional basis before being rolled out nationally. In his recent book *Laboratories of Democracy*, author David Osborne argues that the states also led the way at the turn of the century, coping with the country's shift from a rural to an industrial economy.

This time around, a declining industrial sector has forced many states to develop innovative programs. Pennsylvania (#28), for one, is beginning to crawl out from the rubble of the collapsed steel industry. It created a program using public money as a lure to coax more start-ups out of its technologically fertile universities (see "The New Role Models," October 1987). Likewise Michigan (#23) used small amounts of public money to create incentives for much larger amounts of private investment and tapped public pension money to fund new businesses.

Keep an eye on other states that are leveraging public money. Ohio (#25) offers matching grants for promising new companies and provides early support through incubators and research centers, hoping to attract corporate and venture capital. The state's public pension funds have invested about $140 million in new ventures since 1983. Indiana (#24) is offering tax credits to its citizens who invest in a venture capital fund that intends to support the state's businesses.

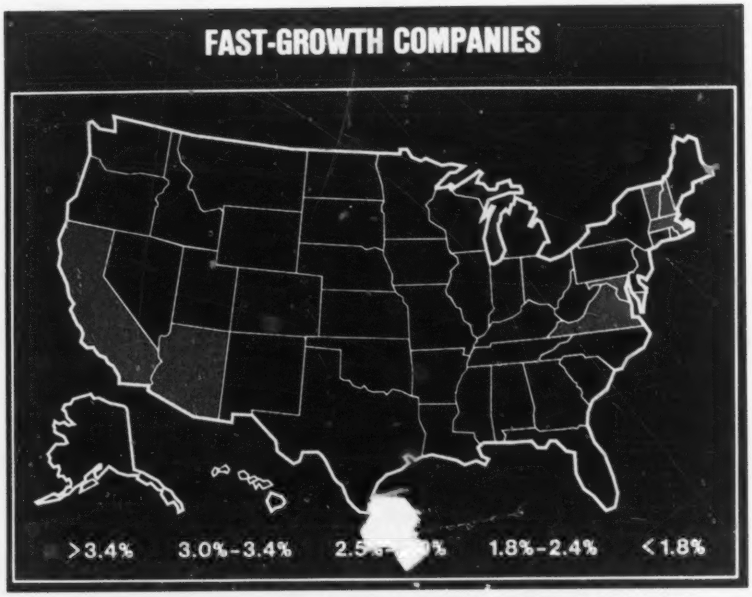
For some governors, the challenge has been finding new ways to shape economic growth. Arizona, #1 for three consecutive years, took off largely due to spillover from southern California and an ideal climate for testing electronics. But the state has sought ways to extend that growth. It financed a survey to determine which products and services big companies were buying outside the state, then launched a program to match these companies with local businesses.

Some of the broad concepts of state economic development could be adopted at the national level. First-rate universities, for instance, have played a role in boosting the economies of many states, such as California (#9), Texas (#20), and Massachusetts (#12). Now, Presidential candidate George Bush talks of becoming the "education President." And both Michael S. Dukakis and Bush have pushed the idea of creating public-private partnerships to transfer technology from universities to the private sector.

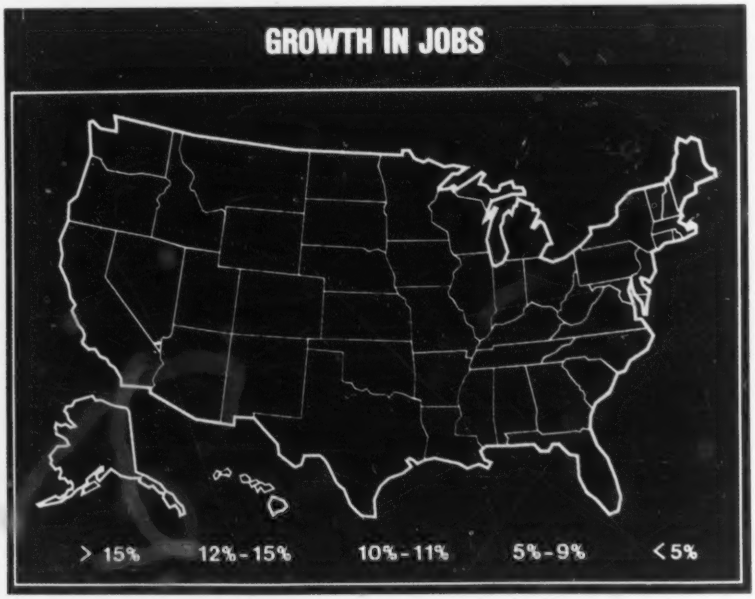
It appears that the states are leading the way. *—Joshua Hyatt*

MAPS: IMAGEBUILDER DESIGN

1988



When it comes to young companies growing quickly, the hottest action is going on in Arizona, California, and states along the eastern seaboard.



The most vibrant job generation is taking place on both coasts. And a few midwestern states are showing the signs of an industrial revival.

WHAT THE RANKINGS MEAN

This year's rankings measure how a state is actually doing in stimulating entrepreneurial activity and economic expansion. A state's position on the list reflects its economy's relative success, over a four-year period, in three areas: job generation, new-business creation, and young-company growth.

JOB GENERATION. The figures in columns 1 and 2, from the federal government's Bureau of Labor Statistics, indicate a state's gain (or loss) in private-sector and civilian public-sector employment between February 1984 and February 1988.

NEW BUSINESSES. The figures in column 4, compiled for the Report on the States by Cognetics Inc., in Cambridge, Mass., include all companies founded in 1984 or later that had at least 10 employees by January 1988. The "birthrate" in column 5 is this number divided by the total number of business establishments in the state.

YOUNG-COMPANY GROWTH. Column 7, also compiled by Cognetics, lists all the companies founded in 1980 or later that registered a growth index of at least 20 between the beginning of 1984 and the beginning of 1988. What's a growth index? Simply the company's *absolute* growth in employment multiplied by its *percentage* growth in employment (expressed as a decimal). Say you employed 50 people in January 1984 and 75 people in January 1988. Your growth index would be 25 x .50, or 12.5—not enough to make the list. Figuring growth in this way eliminates any bias in favor of large companies (which might have high absolute numbers) or small (which might have high percentage numbers).

Column 8 is the number of these young, fast-growing companies divided by all of a state's business establishments founded in 1980 or later.

SCORES. A state's scores (columns 3, 6, and 9) are computer-generated rankings that reflect how it stands in relation to all the other states. The top state in any one category gets a score of 33.33, the bottom state a score of one. Every other state is assigned a number reflecting its relative position on an imaginary scale between the top and the bottom. The top possible score is 100.

All scoring is based on a state's ranking in the percentage columns, not in the absolute-numbers columns. Column 10—the bottom line, so to speak—is the sum of the other three "score" columns.

RATING THE STATES 1988:
NEW JOBS, NEW COMPANIES, AND THE CLIMATE FOR GROWTH

Rank/State (1987 rank)	No. New Jobs (in thou.) 1	Growth in Jobs 2	Score 3	No. New Companies 4	Business Birthrate 5	Score 6	No. Fast-Growth Companies 7	% Fast-Growth Companies 8	Score 9	Total Score 10
1. **ARIZONA** (1)	267.9	23.30%	31.77	1,769	2.87%	33.17	451	4.00%	29.08	94.03
2. **NEW HAMPSHIRE** (2)	95.6	22.72	31.26	499	2.32	24.63	131	4.46	33.33	89.21
3. **MARYLAND** (3)	273.1	15.71	24.95	1,965	2.55	28.20	558	4.30	31.85	85.00
4. **FLORIDA** (6)	936.4	22.70	31.23	6,540	2.88	33.33	1,606	3.06	20.40	84.96
5. **VIRGINIA** (5)	463.3	20.65	29.39	2,292	2.53	27.89	602	3.83	27.51	84.79
6. **GEORGIA** (4)	420.9	17.86	26.88	2,983	2.79	31.93	665	3.43	23.82	82.63
7. **DELAWARE** (7)	56.2	21.06	29.76	246	2.25	23.54	64	3.95	28.62	81.92
8. **NEVADA** (10)	102.3	25.03	33.33	498	2.57	28.51	104	2.87	18.64	80.49
9. **CALIFORNIA** (8)	1,573.4	15.27	24.55	12,352	2.37	25.40	3,459	3.59	25.29	75.25
10. **TENNESSEE** (11)	273.7	15.60	24.85	1,872	2.41	26.02	417	3.06	20.40	71.27
11. **NORTH CAROLINA** (13)	400.1	15.99	25.20	2,137	2.17	22.29	504	3.37	23.26	70.75
12. **MASSACHUSETTS** (9)	282.8	10.26	20.04	2,335	1.95	18.87	619	3.91	28.25	67.17
13. **VERMONT** (18)	39.4	18.67	27.61	205	1.69	14.83	53	3.48	24.28	66.72
14. **NEW JERSEY** (17)	365.6	11.39	21.06	3,237	2.09	21.05	794	3.33	22.89	65.00
15. **MAINE** (26)	82.0	19.29	28.16	359	1.64	14.06	92	3.26	22.25	64.47
16. **SOUTH CAROLINA** (14)	183.2	14.95	24.26	1,141	2.23	23.23	214	2.54	15.59	63.08
17. **HAWAII** (20)	55.8	13.60	23.04	414	2.0	19.65	106	3.00	19.84	62.54
18. **CONNECTICUT** (16)	168.5	11.43	21.09	1,241	1.88	17.79	338	3.40	23.54	62.42
19. **ALABAMA** (21)	156.2	11.53	21.18	1,235	2.17	22.29	231	2.54	15.59	59.07
20. **TEXAS** (12)	185.5	2.93	13.44	8,289	2.58	28.67	1,732	2.60	16.15	58.26
21. **WASHINGTON** (24)	251.8	15.69	24.92	1,624	1.73	15.46	427	2.59	16.06	56.43
22. **UTAH** (15)	56.9	9.81	19.64	642	2.08	20.90	144	2.56	15.78	56.31
23. **MICHIGAN** (19)	395.8	12.04	21.65	2,752	1.67	14.52	743	2.98	19.66	55.83
24. **INDIANA** (25)	254.0	12.34	21.91	1,636	1.75	15.77	361	2.77	17.72	55.39
25. **OHIO** (23)	444.0	10.76	20.49	3,240	1.66	14.37	889	2.96	19.47	54.33
26. **RHODE ISLAND** (27)	44.4	11.07	20.77	316	1.44	10.95	95	3.30	22.61	54.33
27. **NEW YORK** (28)	673.6	9.13	19.02	6,734	1.77	16.08	1,741	2.93	19.20	54.30
28. **PENNSYLVANIA** (32)	378.5	8.36	18.33	3,469	1.64	14.06	864	3.20	21.69	54.08
29. **MINNESOTA** (29)	210.2	12.05	21.65	1,396	1.54	12.50	411	2.88	18.74	52.88
30. **KENTUCKY** (34)	160.6	13.71	23.15	1,194	1.86	17.48	210	2.13	11.81	52.43
31. **COLORADO** (22)	38.5	2.84	13.37	1,670	2.26	23.69	365	2.34	13.75	50.81
32. **OREGON** (33)	131.2	13.47	22.93	958	1.53	12.35	274	2.46	14.86	50.13
33. **WISCONSIN** (35)	207.7	11.09	20.79	1,408	1.48	11.57	349	2.55	15.69	48.05
34. **ILLINOIS** (36)	350.1	7.67	17.71	3,788	1.61	13.59	938	2.65	16.61	47.91
35. **MISSOURI** (31)	205.2	10.43	20.19	1,677	1.59	13.28	376	2.37	14.02	47.49
36. **NEW MEXICO** (30)	41.7	8.53	18.48	482	1.86	17.48	94	1.96	10.24	46.19
37. **KANSAS** (38)	64.7	6.89	17.01	948	1.63	13.90	202	2.34	13.75	44.66
38. **MISSISSIPPI** (40)	71.3	8.85	18.77	664	1.73	15.46	103	1.69	7.74	41.97
39. **ARKANSAS** (37)	82.9	10.89	20.60	657	1.52	12.19	129	1.83	9.04	41.83
40. **WEST VIRGINIA** (41)	13.8	2.39	12.96	479	1.74	15.61	68	1.94	10.05	38.62
41. **NEBRASKA** (43)	52.6	6.68	18.61	461	1.19	7.06	124	2.05	11.07	36.74
42. **LOUISIANA** (44)	–77.7	–4.95	6.35	1,430	1.8	16.54	289	1.90	9.68	32.58
43. **IDAHO** (42)	15.2	4.79	15.12	291	1.38	10.02	52	1.47	5.71	30.84
44. **IOWA** (46)	72.4	6.93	17.04	657	1.05	4.89	141	1.65	7.37	29.30
45. **OKLAHOMA** (47)	–83.0	–7.08	4.43	1,211	1.64	14.06	227	1.53	6.27	24.75
46. **ALASKA** (39)	–9.6	–4.62	6.65	187	1.53	12.35	32	1.33	4.42	23.42
47. **SOUTH DAKOTA** (45)	13.9	5.88	16.10	149	0.9	2.55	34	1.33	4.42	23.07
48. **MONTANA** (48)	–1.8	–0.67	10.21	257	1.12	5.97	49	1.15	2.76	18.94
49. **NORTH DAKOTA** (49)	3.2	1.30	11.98	159	1.02	4.42	22	0.96	1.00	17.40
50. **WYOMING** (50)	–21.2	–10.90	1.00	105	0.8	1.00	25	0.97	1.09	3.09

Chart compiled by special projects editor Sara Baer-Sinnott.

HANDS ON

A Manager's Notebook

FINANCE

ESOP LOANS

If your company already has an ESOP or is setting one up, you should have access to the low-interest loans that are among the program's benefits. If your banker isn't interested, you should know about a list of some 150 banks nationwide whose loan officers will be.

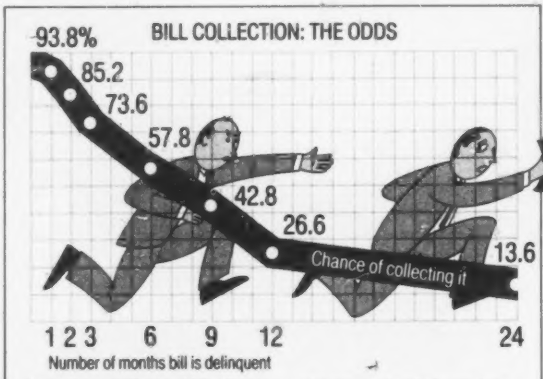
The booklet, published by The National Center for Employee Ownership (NCEO), names bankers who are eager to cash in on the 50% write-down of interest collected from ESOP loans, one of the few tax benefits to survive the 1986 Tax Reform Act. Far from being uncooperative, these bankers *want* ESOP business. And they'll offer the advertised lower rates to get it. ESOP-related lending is growing by 50% per year and totaled $5.7 billion in 1987. The booklet describes how ESOP loans work, features interviews with loan officers, and lists the banks state by state. Send $5 (the publication is free to members) to: NCEO, 426 17th St., Suite 650, Oakland CA 94612. ☐

SELLING

HIGHER PRICE, HIGHER SALES

Many CEOs are scared to death of pricing their products higher than those of their competitors—even if the competing products aren't of equivalent quality or usefulness. Walter Riley, who heads G.O.D. Inc., knows the feeling. But his own experience with pricing strategy, he says, has taught him that you shouldn't be afraid to charge more if you're confident you're offering more.

At G.O.D., an overnight freight business, a price boost was the key ingredient in a mix that led to meteoric growth. From its founding in 1983 until three years later, Riley kept his prices competitive with other truckers. "We were toe to toe with them," he says, "and we still weren't getting any new business." In 1986 the company began pricing at a 5%-to-7% premium, and the price change, along with a small acquisition, in one year brought sales from $3.8 million to $12.7 million. Charging a premium price, Riley says, meant instant credibility. It also differentiated G.O.D. from its competitors. "Raising our prices startled purchasing agents into seeing that we weren't just like our competitors. And they were willing to pay extra for overnight delivery." ☐



According to professional bill collectors — who last year handled more than $2.3 billion in commercial claims — the longer a bill is overdue, the less chance there is that it will be collected.

Source: Commercial Collection Agency Section of the Commercial Law League of America, 1988

OPERATIONS

GAME THEORY

Cost-cutting isn't fun no matter how you do it, but a little gamesmanship can help. When Sundance Spas, a Chino, Calif., plastic hot-tub-maker, launched a one-year program to reduce its cost of goods sold, it began with a rousing, companywide session of "The Price is Right."

"It taught purchasing agents in a few minutes why it's important to tell people the value of things," says CEO Ron Clark. In one instance, employees guessed that a plastic part frequently broken during manufacture cost only $2, and then discovered that its actual price was $32.40. "Just six weeks after they learned that, the production people came up with a two-piece design for the part. Now, when the piece has to be replaced, it costs us $2 rather than $32.40."

Almost across the board, Sundance employees were surprised by how much they'd underestimated costs, and many of them offered suggestions for savings. Says Clark: "If you've got to do some belt-tightening, I think the game is a lot more effective way to break the news than handing out a memo informing supervisors their budgets have been cut." ☐

EMPLOYEE RELATIONS

HOW TO ENCOURAGE SUGGESTIVE BEHAVIOR

Everybody pays lip service to the importance of incorporating employee suggestions into company operations. But how should the suggestions be collected in the first place? The old slotted box won't work—it makes management seem remote and can trivialize the ideas employees might contribute. Isn't there a better way?

The answer, says Terry Kirch, COO of Resource Information Management Systems Inc., a provider of turnkey software for health-care administrators, is lunch. The four principals of the Naperville, Ill., company, which has more than 150 employees, make a point of hosting twice-monthly lunches that encourage workers to keep the suggestions coming.

Five employees—one from each department—are invited to each session. They discuss where there's room for improvement in the company, and what's needed to make their own departments run more efficiently. "It makes employees feel important, and we get invaluable feedback," says Kirch.

Since the lunches began, a bottleneck in the company's paperwork has been eased by the suggested color coding of departmental forms and memos. A receptionist who was alarmed by the amount of personal mail being processed now sells stamps to employees. And one worker's complaints about her telephone led to its being fixed the next day.

"It's not necessarily that it saves the company loads of money, but the lunch lets employees know we care about what they're thinking," says Kirch. "And it makes them take their jobs and the company to heart." ☐

CHART: CYNTHIA DAVIS

COMMUNITY RELATIONS

PLANNED PHILANTHROPY

Charity solicitation, especially those requests by the typically endless roster of local organizations, is troublesome for many growth-company CEOs. You want to be generous (you may even fear your business's reputation will be harmed if you're not), but you can't afford to give to *everybody*.

Until two years ago, that was the case at Mona, Meyer & McGrath (MMM), a Minneapolis public-relations firm. Then, says CEO David Mona, the company found what it thinks is a solution: a well-planned, well-stated program for giving.

MMM gives specified portions of pretax earnings to a few selected organizations, and makes its largest single contribution by taking on one major *pro bono* account each year.

Now, when MMM's managers are pitched by other programs, they can politely say no—citing their policy of committing themselves heavily to one account per year. "It cuts out all the hemming and hawing," says Mona. "We are spending our dollars more wisely and can decline more kindly. We can say, 'Sorry, we've made a decision and we're fully committed in that area.' Not simply, 'We aren't interested,' or, 'We don't care.' They can see we are generous." □

MANAGING PEOPLE

CONTRACTING TO PREVENT LOSS

If you run a professional services business, you're probably not surprised when employees leave and take their—and your—clients with them. Happens all the time, but it's troublesome nonetheless. Norman Ochelski, who operates his own CPA firm in Detroit, has a solution: require new hires to sign a contract stating they will pay the going market rate for clients that they swipe.

"I can't force a client to stay with my company when one of my CPAs moves on; after all, client relationships can get pretty close. But I do get fair payment when it happens," Ochelski says. He typically receives one and a quarter times the account's yearly gross billings when a CPA takes the business out the door. "Usually it's between one and two times depending on where the business is located. It's an agreement that stands up in court because the employer would be incurring a financial hardship—it's based on what the practice would sell for [on the open market]."

Ochelski has never been taken to court on the agreement, but a friend has, and he won his case. "It's not as common as it should be, given how fair and easy to implement it is. This way there are no hard feelings when we part company." □

BANKING

LETTERS OF CREDIT

Few relationships are more important to growth-company CEOs than those they build with their bankers. "It's very important to sell them all the time, because it's easier for them to call your loans when they don't know you very well," says Bruce W. Neurohr, CEO of Transamerica Energy Associates Inc., in Atlanta. One way Neurohr separates himself from the countless other members of the borrowing crowd—most of whom are trying to woo their lenders over lunch—is determinedly old-fashioned. He sends out thank-you notes.

When, for example, he gets help from his loan officer, he writes a letter of appreciation—not to the loan officer, but to the loan officer's boss. "Lots of people take their bankers to lunch, so from a banker's perspective, lunch isn't such a big deal," says Neurohr.

Letters, however, apparently are. Neurohr reports that one letter recipient told the loan officer whose service had occasioned the note, "this is the kind of company we should be doing business with." Says Neurohr: "The letters put the company in a positive light all the way up the chain of command." □

QUOTE OF THE MONTH

> *'The name of the game is to stay in the game. It's like poker—if you can stay at the table, you can win.'*
>
> *—Richard Lord, of Lord Einstein O'Neill & Partners, on starting his first ad agency from a hotel room in 1967*

MANAGEMENT

ALL PRESENT AND ACCOUNTED FOR

As a company grows, it can become tough to keep track of who's responsible for what. "You have people constantly crossing functional lines," says Thomas G. Kamp, president of Premier Computer Corp., in Oklahoma City. "It becomes easy for accountability to get lost."

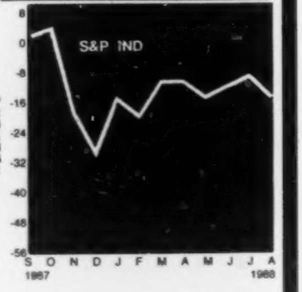
Premier, a disk-drive repair company, has grown from 25 people to about 260 in just four years. "I found myself not knowing who was responsible for ensuring proper turnaround time, for example," Kamp complains. So he devised a simple system for keeping track of each employee's accountability, including his own. At least once a year, he asks his 18 executives and managers to draw up a matrix specifying their responsibilities and those of each of the people under them. "By writing it all down, they come to own it," he says.

The matrix looks like this: across the top, employees' initials serve as column headings. Down the side are different job tasks (such as internal growth planning) or limits of authority (such as approving purchases of less than $500). After all the matrixes are complete, Kamp hands them out in a looseleaf binder. "It's a reference tool," he says. □

Reported by Leslie Brokaw, Joshua Hyatt, and Teri Lammers

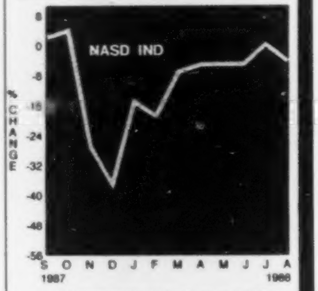
INVESTING IN GROWTH COMPANIES

INC. vs. CONSERVATIVE AVERAGES



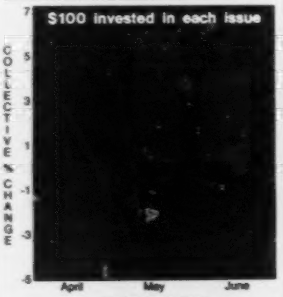
All averages start at 0 in September 1987.

INC. vs. SPECULATIVE AVERAGES



All averages start at 0 in September 1987.

IPOs IN THE AFTERMARKET



To August 15, 1988

INITIAL PUBLIC OFFERINGS: JULY 1988

O-T-C sym.	Company	Business/product	Offering Size ($mil.)	Offering Price	First aftermarket bid	Underwriter
APCC	**American Power Conversion**	Mfr. uninterrupted power supplies	5.81	7.50	7⅝	Josephthal & Co.
APGG	**Apogee Technology**	Mfr. audio speakers	3.60	6.00	6½	Life Planning
ASIXU	**Asaix International**	Mfr. & mkts. tire-repair machinery	2.00	6.25[d]	7⅝	Andorson, Bryant
AUIN	**Automotive Industries**	Acquires car svc. cos.	7.50	2.50	2½	F. N. Wolf
BBGS	**Babbage's**	Operates computer chain	19.50	13.00	14⅛	Alex. Brown
BYX[a]	**Bayou Steel**	Owns steel mill	49.40	13.00	12⅝	Allen & Co.
BKT[b]	**Blackstone Income Trust**	Closed-end mgmt. co.	585.00	10.00	10	Prudential Bache
BIG[b]	**Bond International Gold**	Gold mining & exploration	153.15	63.00[e]	61½	Goldman, Sachs
BR[b]	**Burlington Resources**	Energy & resource holding co.	408.00	25.50	25½	Shearson Lehman
CSBK	**Carolina Southern Bank**	Commercial bank	5.00	10.00	10	Robinson-Humphrey
CSM[b]	**Chaparral Steel**	Steel production	81.00	15.00	15⅛	Dillon Read
CFED	**Charter Federal Savings Bank**	Savings bank	3.75	10.25	10½	Ryan, Beck
CIF[b]	**Colonial Intermediate High**	Closed-end investment fund	110.00	10.00	10	Shearson Lehman
COLB	**Columbia Laboratories**	Laboratory svcs.	4.05	3.00	2⅞	Paragon Capital
LENS	**Concord Camera**	Imports, mkts., & distr. cameras	5.00	5.00	5⅛	Reich & Co.
EAFC	**Eastland Financial**	S&L	13.77	9.50	9½	Merrill Lynch
ELAS	**Electronic Assembly Service**	Provides mfr. & eng. svcs.	12.00	2.00[f]	2¼	Thomas James
EIC[b]	**Emerald Mortgage Investment**	Real-estate investment trust	80.00	10.00	10	Dean Witter
HOMG	**Homeowners Group**	Supplies prods. & svcs. to real-estate brokers	13.50	9.00	8¾	Hambrecht & Quist
c	**Integral Systems**	Dvlps. & installs computer hardware & software	0.50	5.00	5⅛	Wachtel & Co.
KGT[b]	**Kemper Intermediate Govt. Trust**	Closed-end fund	280.00	10.00	10⅛	Paine Webber
MFT[b]	**MFS Multimarket Total Return Tr**	Closed-end fund	150.00	10.00	10⅛	Wheat First
NHLI	**National Health Laboratories**	Operates clinical labs	39.00	10.00	9¾	Drexel Burnham
NPI[b]	**Nuveen Premium Municipal Fund**	Closed-end fund	675.00	15.00	15	Alex. Brown
ONA[a]	**Oneita Industries**	Mfr. & mkts. T-shirts	8.40	7.00	7¼	Drexel Burnham
PBCT	**People's Bank**	S&L	11.16	8.50	8⅝	Morgan Stanley
RXN[b]	**Rexene**	Mfr. & mkts. thermoplastics	129.00	21.50	21⅛	First Boston
TUSC	**Tuscarora Plastics**	Mfr. plastic prods.	6.11	15.50	17	Parker/Hunter

Initial public offerings sold at $1 or less not included. First aftermarket bid is approximate. [a] trading on AMEX; [b] trading on NYSE; [c] no symbol; [d] units of 2 common + 1 warrant; [e] units of 5 common + 1 warrant; [f] units of 4 common + 2 warrants. Offering data source: *GOING PUBLIC: THE IPO Reporter*, a publication of The Dealer's Digest Inc., 150 Broadway, New York NY 10038

CHARTS: IMAGEBUILDER DESIGN

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